

**ROCK RAPIDS MUNICIPAL UTILITIES,
A COMPONENT UNIT OF
THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

JUNE 30, 2012

*De Noble & Company PC
Certified Public Accountants
Rock Rapids, Iowa*

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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Officials

Name	Title	Term Expires
(Before September 2011)		
David Foltz	Board of Trustees Chairman	August 31, 2011
Stan Knobloch	Board of Trustees Vice Chairman	August 31, 2013
Randal Koll	Board of Trustees Member	August 31, 2015
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2011
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoye	Utilities Manager	Indefinite
Austin, Haberkorn & Kippely	Attorneys	Indefinite
(After September 2011)		
Stan Knobloch	Board of Trustees Chairman (*)	August 31, 2013
David Foltz	Board of Trustees Vice Chairman (*)	August 31, 2017
Randal Koll	Board of Trustees Member	August 31, 2015
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2013
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoye	Utilities Manager	Indefinite
Austin, Haberkorn & Kippely	Attorneys	Indefinite

(*) The change in the Chairman and Vice Chairman became effective as of October 25, 2011.

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

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Independent Auditor's Report

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Rock Rapids Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note (1) to the financial statements, management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amount by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the business type activities and each major proprietary fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental major

fund of the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, at June 30, 2012, and respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 5 through 13 and 48 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate, operational economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. general accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two fiscal years ended June 30, 2011 (which are not presented herein) and expressed dual adverse opinions/unqualified opinions on the fiscal year ended June 30, 2011 financial statements and adverse opinions on the fiscal year ended June 30, 2010 financial statements. We expressed adverse opinions for the two fiscal years ended June 30, 2011 because management did not record the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, did not record the corresponding OPEB expense. There were also no disclosures reported on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America required that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that

certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The supplementary information included in Schedules 1 through 17, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of not recording the net OPEB liability and the corresponding expense in the business type activities and proprietary funds and not reporting disclosures on the net OPEB obligation in the notes to the financial statements for the fiscal year ended June 30, 2012, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

January 28, 2013

Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 5.0% during the fiscal year ended June 30, 2012. The total net assets increased from \$14,474,463 to \$15,201,172, a \$726,709 increase. Governmental activities net assets increased by \$300,000 (from \$60,000 to \$360,000 – due to the receipt of a USDA grant to assist in establishing a Revolving Loan Fund). Business type activities increased by \$426,709 (from \$14,414,463 to \$14,841,172).
- The Utilities' business type activities total revenues/special items increased 5.7% during the fiscal year ended June 30, 2012. The total revenues/special items increased from \$4,048,869 to \$4,279,360, a \$230,491 increase. The increase is mainly due to grant income of \$445,939 in the Electric Utility and new water sales to Lyon and Sioux Rural Water System, Inc. at the casino connection.
- The Utilities' business type activities total expenses/special items increased 2.4% during the fiscal year ended June 30, 2012. The total expenses increased from \$3,761,145 to \$3,852,651, a \$91,506 increase. The increase is mainly due to an increase in purchased water from Lewis and Clark and costs related to the "Retrofit Street Lighting Project" done for the City of Rock Rapids.
- The change in net assets for the fiscal year ended June 30, 2012 for each individual Enterprise Fund was as follows:

Electric Utility	\$ 343,925
Water Utility	25,385
Sewer Utility	(2,334)
Gas Utility	59,733
Total	<u>\$ 426,709</u>

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

The Fund Financial Statements report the Utilities' operations in more detail than the Government-Wide Financial Statements by providing information about each of the funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

The Supplementary Information provides detailed comparison information for each existing Utility for the fiscal year ended June 30, 2012, compared to the fiscal years ended June 30, 2011 and 2010. In addition, the Schedule of Expenditures of Federal Awards provides details of the Federal programs benefiting the Utilities.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include economic development through the start up of a new Revolving Loan Fund. A USDA grant and a Gas Utility transfer provided financing for this new loan program.
- Business type activities include the Electric, Water, Sewer and Gas Utility departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has two kinds of funds:

- (1) The Utilities has a Governmental (Special Revenue) Fund to account for a newly established revolving loan program that was established through \$300,000 in funding provided by a "Rural Economic Development Grant" and a \$60,000 matching contribution from the Gas Utility Fund. This fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Utilities' governmental operation and the basic service it is providing. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Utilities' program.

The required financial statements for the Governmental Fund include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance.

- (2) Proprietary Funds are used to account for the Utilities' Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary Funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the Proprietary Funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Enterprise Funds include the Electric, Water, Sewer and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities from a year ago.

	Governmental Activities		Business Type Activities	
	Net Assets at Year End		Net Assets at Year End	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Current Assets	\$ 66,000	30,000	\$ 4,926,804	5,509,363
Restricted Cash and CDs	0	0	91,238	72,018
Capital Assets (Net)	0	0	10,035,535	7,929,527
Other Assets	294,000	30,000	262,553	1,263,141
Total Assets	360,000	60,000	15,316,130	14,774,049

Current Liabilities				
(Payable from Current Assets)	0	0	373,617	267,188
Current Liabilities				
(Payable from Restricted Assets)	0	0	67,893	59,440
Long-Term Liabilities	0	0	33,448	32,958
Total Liabilities	<u>0</u>	<u>0</u>	<u>474,958</u>	<u>359,586</u>
Net Assets:				
Invested in Capital Assets	0	0	10,035,535	7,929,527
Restricted	360,000	60,000	23,345	12,578
Unrestricted	0	0	4,782,292	6,472,358
Total Net Assets	<u>\$ 360,000</u>	<u>60,000</u>	<u>\$ 14,841,172</u>	<u>14,414,463</u>

The largest portion of the Utilities' business type activities net assets is invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment, intangibles and construction work in progress) (67.6% of the net assets total for fiscal year ended June 30, 2012). For fiscal years ended June 30, 2012 and June 30, 2011, there is no capital assets related external debt. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used (100% of the net assets total for governmental activities and 0.2% of the net assets total for business type activities for fiscal year ended June 30, 2012). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements (32.2% of the net assets total for business type activities for fiscal year ended June 30, 2012).

During fiscal year ending June 30, 2012, the Utilities began purchasing water from the Lewis & Clark Regional Water System, Inc. at the casino connection. Based on Lewis & Clark's water system becoming available to the Utilities during the fiscal year, the \$1,053,589 in project membership costs that had been incurred by the Utilities and had been reported as part of "Other Assets" was reclassified to "Capital Assets (Net)" (reported as an "Intangible"). This reclassification of project membership costs also contributed to the increase in "Net Assets: Invested in Capital Assets" and the decrease in "Net Assets: Unrestricted".

	Governmental Activities		Business Type Activities	
	Changes in Net Assets		Changes in Net Assets	
	For the Year Ended		For the Year Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues:				
Program Revenues:				
Charges for Services	\$ 0	\$ 0	\$ 3,730,495	\$ 3,888,610
General Revenues:				
Gain on Disposal of Capital Assets	0	0	750	9,650
Rentals	0	0	6,880	6,880
Customer Penalties/Credit Card Fees	0	0	2,360	3,174
Interest Income	0	0	88,983	113,185
Gas Rate Case Settlement	0	0	3,304	3,233
Miscellaneous Income	0	0	649	0
Hail Insurance Proceeds	0	0	0	10,118
Total Revenues	0	0	3,833,421	4,034,850
Program Expenses:				
Electric	0	0	2,044,812	1,993,229
Water	0	0	514,108	364,412
Sewer	0	0	238,619	239,185
Gas	0	0	911,393	1,164,319
Total Expenses	0	0	3,708,932	3,761,145
Special Items:				
USDA-Rural Economic Development Grant	300,000	0	0	0
WTFAP Grant	0	0	0	869
Energy Efficiency & Conservation				
Block Grant	0	0	65,219	13,150
Hazard Mitigation Grant Program	0	0	380,720	0
Free Community Service (Related Party)	0	0	(143,719)	0
Total Special Items	300,000	0	302,220	14,019
Other Financing Source/Use:				
Operating Transfer (Gas Utility Fund				
To Revolving Loan Fund)	0	60,000	0	(60,000)
Increase in Net Assets	300,000	60,000	426,709	227,724
Net Assets Beginning of Year	60,000	0	14,414,463	14,186,739
Net Assets End of Year	\$ 360,000	60,000	\$ 14,841,172	14,414,463

The "Increase in Net Assets" from fiscal year ended June 30, 2012 compared to June 30, 2011 was higher by \$240,000 (400%) in the governmental activities and higher by \$198,985 (87.4%) in the business type activities. The Utilities total net assets (governmental activities and business type

activities) increased 5.0% during the fiscal year ended June 30, 2012. The primary reason the amount of “Increase in Net Assets” was higher than last year was due to the increase in “special items” as the result of the Revolving Loan Fund and the Electric Utility qualifying for intergovernmental grant revenues, which were able to offset a decrease in charges for services. The Utilities was essentially able to keep expenses constant as a whole with the prior fiscal year. There was a slight increase due to a large amount of free community service (“special item”) done this year that was provided to the City of Rock Rapids.

INDIVIDUAL MAJOR FUND ANALYSIS

Revolving Loan Fund (Special Revenue)

The Revolving Loan Fund was established by a \$60,000 transfer from the Gas Utility Fund during fiscal year ended June 30, 2011. The \$60,000 was the Utilities match needed to qualify in fiscal year ended June 30, 2012 for a \$300,000 “Rural Economic Development Grant” for this fund. The initial \$360,000 was loaned to the Rock Rapids Community Affairs Corporation (“CAC”) which utilized the funding to build a commercial spec building that has been sold on contract to a local businessman. The contract and collateral were assigned by the CAC over to the Utilities to satisfy the loan made to the CAC. As this contract is repaid, the Utilities will have money available that can be loaned to area businesses for new endeavors, to maintain retention or for expansion.

Operating Revenues (Utility Funds)

Electric operating revenues were \$2,065,210, down \$13,397 or 1% from the previous fiscal year, which is comparable. Residential and commercial usage was down slightly.

Water operating revenues were \$538,137, up \$100,445 or 23% from the previous fiscal year, due mainly to an increase in water sales to Lyon and Sioux Rural Water System, Inc. (largely due to new water sales to the casino).

Sewer operating revenues were \$236,102, down \$1,898 or 1% from the previous fiscal year, which was comparable.

Gas operating revenues were \$891,046, down \$243,265 or 21% from the previous fiscal year, due to a reduction in commodity sales (mild winter weather) and lower natural gas commodity prices.

Operating Expenses (Utility Funds)

Electric operating expenses were \$2,044,599, up \$51,503 or 3% from last fiscal year, due mainly to an increase in purchased power costs.

Water operating expenses were \$480,576, up \$144,739 or 43% from last fiscal year, due mainly to the first year in purchasing water from Lewis & Clark Regional Water System, Inc., an increase in distribution system repairs and an increase in depreciation expense.

Sewer operating expenses were \$235,115, down \$99 or 0% from last fiscal year, which is comparable.

Gas operating expenses were \$911,128, down \$252,945 or 22% from last fiscal year, due mainly to a reduction in the volume of commodity purchases and lower natural gas commodity prices.

Net Assets (Utility Funds)

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2012 with a \$6,178,275 net asset balance compared to the prior year ending net asset balance of \$5,834,350 (\$343,925 increase or 6%). The prior fiscal year change was an increase of \$129,640. As stated previously, the Electric Utility had a few "special items" during the fiscal year that contributed to this increase. The Utilities had grant income of \$445,939 (Energy Efficiency and Conservation Block Grant and Hazard Mitigation Grant Program), which was partially offset by additional free community service provided to the City of Rock Rapids in the amount of \$143,719 (costs related to the "Retrofit Street Lighting Project")

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2012 with a \$2,917,892 net asset balance compared to the prior year ending net asset balance of \$2,892,507 (\$25,385 increase or 1%). The prior fiscal year change was an increase of \$87,878.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2012 with a \$1,065,306 net asset balance compared to the prior year ending net asset balance of \$1,067,640 (\$2,334 decrease or 0%). The prior fiscal year change was an increase of \$1,244.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2012 with a \$4,679,699 net asset balance compared to the prior year ending net asset balance of \$4,619,966 (\$59,733 increase or 1%). The prior fiscal year change was an increase of \$8,962.

BUDGETARY HIGHLIGHTS

During fiscal year ended June 30, 2012, the Rock Rapids Municipal Utilities amended its budget one time on May 30, 2012. The Utilities increased receipts by \$387,000 (funding of the Revolving Loan Fund) and disbursements by \$1,635,000 (capital improvement costs of \$650,000 for the Electric Fund and \$625,000 for the Water Fund and a \$360,000 loan issued by the Revolving Loan Fund).

Receipts came in \$456,369 under the amended budget. Use of money and property came in \$101,080 over budget, intergovernmental revenues came in \$9,862 over budget, charges for service came in \$612,449 under budget and miscellaneous receipts came in \$45,138 over budget. The breakdown of the charges for service by Utility is as follows: the Electric Fund receipts came in \$124,986 under budget, the Water Fund came in \$7,865 over budget, the Sewer Fund came in \$5,747 under budget and the Gas Fund came in \$489,581 under budget.

Disbursements came in \$514,625 under the amended budget. The Electric Fund came in \$71,153 under budget, the Water Fund came in \$51,402 under budget, the Sewer Fund came in \$18,507 under budget, the Gas Fund came in \$313,563 under budget and the Revolving Loan Fund came in \$60,000 under budget.

Other financing sources came in \$750 over budget.

The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities. This is a major reason why, along with the fact that any Utilities' budget amendments must be approved by the City Council as part of an overall City amended budget, the Utilities came in below the final amended budget but the original budget was exceeded before the amended budget was adopted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Please see Note (7) to the financial statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant, a 2008 GM truck with lift, and reclassification of Lewis & Clark project membership costs from an "Other Asset" to an "Intangible" capital asset. Utility plant additions were for Electric, Water and Gas Utility meter replacements and line improvements/additions and a tank at the wastewater treatment plant for the Sewer Utility.

Construction in progress at June 30, 2012 consists primarily of an electric substation project, electric hazard mitigation project, water gravity filter rehabilitation project, Greene Street water system expansion project, sewer Scada system improvements project and the sewer Haz Mat project.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2012. Please see Note (3) for internal long-term loans made from the Gas Fund to the Water and Sewer Funds.

ECONOMIC FACTORS

The Rock Rapids Municipal Utilities Electric Utility saw a leveling off of electrical purchased power costs. It is expected that in the coming fiscal year to see stable prices unless there is intensification in the drought. Drought continuation could cause low Missouri River releases from the main stem dams which would require WAPA to invoke their drought adder in January of 2014. This would in turn cause upward pressure on the Rock Rapids Municipal Utilities' purchased power costs.

The Water Utility will be implementing a water rate increase in fiscal year '12/'13 to fund system improvements and to acquire water source expansion. Water source expansion will entail tapping into the Lewis and Clark Water System at two different locations. The extra source of water will allow for increased sales to Lyon and Sioux Rural Water System, Inc., the Water Utilities largest customer.

The Sewer Utility operations are expected to remain stable in the near future.

The Gas Utility has experienced lower natural gas commodity prices in the last year. Analysts expect in the upcoming year for natural gas prices to only rise minimally.

The Revolving Loan Fund will collect payments on its outstanding loan until it has enough cash available to consider additional lending opportunities.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and entities we have dealings with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 30,000	1,252,180	1,282,180
Certificates of Deposit	0	2,775,000	2,775,000
Accounts Receivable	0	305,708	305,708
Due From Other Governments (Related Party)	0	6,549	6,549
Due From Other Governments	0	356,719	356,719
Notes Receivable - Rock Rapids Development Corporation	0	6,000	6,000
Note Receivable - Rock Rapids Business	36,000	0	36,000
Interest Receivable	0	10,216	10,216
Interest Receivable	0	3,628	3,628
Inventory	0	139,039	139,039
Prepaid Expenses	0	71,765	71,765
Total Current Assets	<u>66,000</u>	<u>4,926,804</u>	<u>4,992,804</u>
Restricted Cash:			
Customer Deposits	0	67,893	67,893
Depreciation Reserves	0	23,345	23,345
Total Restricted Cash	<u>0</u>	<u>91,238</u>	<u>91,238</u>
Capital Assets:			
Land	0	179,087	179,087
Utility Plant	0	15,787,510	15,787,510
Transportation Equipment	0	347,436	347,436
Office Equipment	0	39,782	39,782
Tools and Safety Devices	0	266,916	266,916
Communication Equipment	0	8,077	8,077
Meter Testing Equipment	0	21,903	21,903
Intangibles	0	1,087,634	1,087,634
Total Capital Assets (Before W.I.P.)	<u>0</u>	<u>17,738,345</u>	<u>17,738,345</u>
Less: Accumulated Depreciation/Amortization	<u>0</u>	<u>(9,373,590)</u>	<u>(9,373,590)</u>
Capital Assets -- Net (Before W.I.P.)	<u>0</u>	<u>8,364,755</u>	<u>8,364,755</u>
Construction Work in Progress	<u>0</u>	<u>1,670,780</u>	<u>1,670,780</u>
Net Capital Assets	<u>0</u>	<u>10,035,535</u>	<u>10,035,535</u>
Other Assets:			
Notes Receivable - Rock Rapids Development Corporation	0	197,553	197,553
Note Receivable - Rock Rapids Business	294,000	0	294,000
Note Receivable - Housing Development Incentive Program	0	65,000	65,000
Total Other Assets	<u>294,000</u>	<u>262,553</u>	<u>556,553</u>
Total Assets	<u>360,000</u>	<u>15,316,130</u>	<u>15,676,130</u>

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
Liabilities			
Current Liabilities (Payable From Current Assets):			
Accounts Payable	0	81,480	81,480
Due to Other Governments (Related Party)	0	28,288	28,288
Due to Other Governments	0	12,294	12,294
Construction Contracts Payable	0	59,597	59,597
Accrued Vacation/Comp Time Pay	0	58,657	58,657
Accrued Payroll & Payroll Liabilities	0	16,585	16,585
Unearned Income	0	116,716	116,716
Total Current Liabilities (Payable From Current Assets)	0	373,617	373,617
Liabilities Payable From Restricted Cash:			
Customer Deposits	0	67,893	67,893
Long -Term Liabilities:			
Accrued Sick Leave Pay	0	33,448	33,448
Total Liabilities	0	474,958	474,958
Net Assets			
Invested in Capital Assets	0	10,035,535	10,035,535
Restricted for:			
Loans to Businesses	360,000	0	360,000
Depreciation Reserves	0	23,345	23,345
Unrestricted	0	4,782,292	4,782,292
Total Net Assets	\$ 360,000	14,841,172	15,201,172

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Statement of Activities

For The Fiscal Year Ended June 30, 2012

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Functions/Programs:					
Business Type Activities:					
Electric Utility	\$ 2,044,812	2,065,210	0	20,398	20,398
Water Utility	514,108	538,137	0	24,029	24,029
Sewer Utility	238,619	236,102	0	(2,517)	(2,517)
Gas Utility	911,393	891,046	0	(20,347)	(20,347)
Total Business Type Activities	<u>\$ 3,708,932</u>	<u>3,730,495</u>	<u>0</u>	<u>21,563</u>	<u>21,563</u>
General Revenues:					
Gain on Disposal of Capital Assets			0	750	750
Rentals			0	1,880	1,880
Rentals (Related Party)			0	5,000	5,000
Customer Penalties/Credit Card Fees			0	2,360	2,360
Gas Rate Case Settlement			0	3,304	3,304
Interest Income			0	51,947	51,947
Interest Income (Water, Sewer Funds)			0	37,036	37,036
Miscellaneous Income			0	649	649
Total General Revenues			<u>0</u>	<u>102,926</u>	<u>102,926</u>
Special Items:					
USDA-Rural Economic Development Grant			300,000	0	300,000
Energy Efficiency and Conservation Block Grant			0	65,219	65,219
Hazard Mitigation Grant Program			0	380,720	380,720
Free Community Service (Related Party)			0	(143,719)	(143,719)
Total Special Items			<u>300,000</u>	<u>302,220</u>	<u>602,220</u>
Change in Net Assets			<u>300,000</u>	<u>426,709</u>	<u>726,709</u>
Net Assets Beginning of Year			<u>60,000</u>	<u>14,414,463</u>	<u>14,474,463</u>
Net Assets End of Year			<u>\$ 360,000</u>	<u>14,841,172</u>	<u>15,201,172</u>

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Balance Sheet
Governmental Fund**

June 30, 2012

	<u>Special Revenue</u>
	<u>Revolving Loan Fund</u>
Assets	
Current Assets:	
Cash	\$ 30,000
Note Receivable - Rock Rapids Business	36,000
Total Current Assets	66,000
Other Asset:	
Note Receivable - Rock Rapids Business	294,000
Total Assets	<u>\$ 360,000</u>
Fund Balance:	
Restricted For:	
Loans to Businesses	\$ 360,000
Total Fund Balance	<u>\$ 360,000</u>

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Fund**

For the Fiscal Year Ended June 30, 2012

	<u>Special Revenue</u>
	<u>Revolving Loan Fund</u>
Revenues:	
	\$ 0
Expenditures:	
None	0
Special Items:	
USDA-Rural Economic Development Grant	<u>300,000</u>
Net Change in Fund Balance	300,000
Fund Balance Beginning of Year	<u>60,000</u>
Fund Balance End of Year	<u><u>\$ 360,000</u></u>

Exhibit E

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Net Assets
Proprietary Funds**

June 30, 2012

Enterprise Funds					
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Assets					
Current Assets:					
Cash	\$ 184,349	271,700	167,843	628,288	1,252,180
Certificates of Deposit	875,000	0	0	1,900,000	2,775,000
Accounts Receivable	130,850	70,675	18,084	86,099	305,708
Due From Other Utility Funds	0	0	0	96,219	96,219
Due From Other Governments (Related Party)	4,354	602	506	1,087	6,549
Due From Other Governments	355,408	468	444	399	356,719
Note Receivable - Rock Rapids Development Corporation	0	0	0	6,000	6,000
Interest Receivable	3,891	0	0	6,325	10,216
Flex Spending Receivable	3,628	0	0	0	3,628
Inventory	73,156	27,340	0	38,543	139,039
Prepaid Expenses	28,937	16,593	13,823	12,412	71,765
Total Current Assets	1,659,573	387,378	200,700	2,775,372	5,023,023
Restricted Cash:					
Customer Deposits	28,463	7,705	0	31,725	67,893
Depreciation Reserves	0	0	23,345	0	23,345
Total Restricted Cash	28,463	7,705	23,345	31,725	91,238
Capital Assets:					
Land	46,913	118,311	0	13,863	179,087
Utility Plant	8,157,889	4,321,286	2,235,191	1,073,144	15,787,510
Transportation Equipment	178,105	29,951	38,380	101,000	347,436
Office Equipment	24,958	6,498	730	7,596	39,782
Tools and Safety Devices	126,252	42,316	25,251	73,097	266,916
Communication Equipment	7,071	1,006	0	0	8,077
Meter Testing Equipment	16,235	5,668	0	0	21,903
Intangibles	11,990	1,060,299	3,355	11,990	1,087,634
Total Capital Assets (Before W.I.P.)	8,569,413	5,585,335	2,302,907	1,280,690	17,738,345

Less: Accumulated Depreciation/Amortization	(4,838,305)	(2,473,693)	(1,443,228)	(618,364)	(9,373,590)
Capital Assets – Net (Before W.I.P.)	3,731,108	3,111,642	859,679	662,326	8,364,755
Construction Work in Progress	885,161	721,435	64,184	0	1,670,780
Net Capital Assets	4,616,269	3,833,077	923,863	662,326	10,035,535
Other Assets:					
Advances To Other Utility Funds	0	0	0	1,186,008	1,186,008
Note Receivable - Rock Rapids Development Corporation	0	0	0	197,553	197,553
Note Receivable - Housing Development Incentive Program	29,717	5,567	0	29,716	65,000
Total Other Assets	29,717	5,567	0	1,413,277	1,448,561
Total Assets	6,334,022	4,233,727	1,147,908	4,882,700	16,598,357
Liabilities					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	49,501	29,014	1,964	1,001	81,480
Due To Other Utility Fund	0	80,062	16,157	0	96,219
Due To Other Governments (Related Party)	158	9,387	45	18,698	28,288
Due To Other Governments	8,802	1,790	240	1,462	12,294
Construction Contracts Payable	28,675	30,922	0	0	59,597
Accrued Vacation/Comp Time Pay	21,408	11,154	8,066	18,029	58,657
Accrued Payroll & Payroll Liabilities	6,623	2,885	2,139	4,938	16,585
Unearned Income	0	0	0	116,716	116,716
Total Current Liabilities (Payable From Current Assets)	115,167	165,214	28,611	160,844	469,836
Liabilities Payable From Restricted Cash:					
Customer Deposits	28,463	7,705	0	31,725	67,893
Long -Term Liabilities:					
Accrued Sick Leave Pay	12,117	5,522	5,377	10,432	33,448
Advance From Other Utility Fund	0	1,137,394	48,614	0	1,186,008
Total Long-Term Liabilities	12,117	1,142,916	53,991	10,432	1,219,456
Total Liabilities	155,747	1,315,835	82,602	203,001	1,757,185
Net Assets					
Invested in Capital Assets, Net of Related Debt	4,616,269	2,630,981	859,092	662,326	8,768,668
Restricted for:					
Depreciation Reserves	0	0	23,345	0	23,345
Unrestricted	1,562,006	286,911	182,869	4,017,373	6,049,159
Total Net Assets	\$ 6,178,275	2,917,892	1,065,306	4,679,699	14,841,172

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds**

For the Fiscal Year Ended June 30, 2012

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Operating Revenues:					
Residential Sales	\$ 1,033,567	0	0	591,359	1,624,926
Commercial Sales	963,114	0	0	292,786	1,255,900
Public Street and Highway Lighting	29,035	0	0	0	29,035
Wind Power – Residential and Commercial	486	0	0	0	486
Water Sales – Metered	0	259,542	0	0	259,542
Water Sales – Rural Water System	0	245,754	0	0	245,754
Water Sales – Tank Loads	0	614	0	0	614
Sewer Service	0	0	234,922	0	234,922
Material and Service Sales	31,348	29,289	0	1,899	62,536
Service Income	3,528	577	0	870	4,975
Service Income (Related Party)	4,132	2,361	1,180	4,132	11,805
Total Operating Revenues	2,065,210	538,137	236,102	891,046	3,730,495
Operating Expenses:					
Production/Processing Expense	1,282,513	152,297	113,853	550,119	2,098,782
Distribution Expense	180,293	85,038	0	114,980	380,311
Accounting and Collecting	24,928	14,927	6,615	25,923	72,393
Administrative and General	179,079	104,999	54,007	153,679	491,764
Free Community Service (Related Party)	100,768	0	5,280	0	106,048
Free Community Service	8,301	0	0	0	8,301
Transportation	5,428	1,662	2,982	5,038	15,110
Depreciation	231,741	104,935	40,535	37,418	414,629
Payroll Taxes	31,548	16,718	11,843	23,971	84,080
Total Operating Expenses	2,044,599	480,576	235,115	911,128	3,671,418
Operating Income (Loss)	20,611	57,561	987	(20,082)	59,077

Nonoperating Revenues (Expenses):

Gain on Disposal of Capital Assets	250	250	0	250	750
Rentals	1,000	880	0	0	1,880
Rentals (Related Party)	5,000	0	0	0	5,000
Customer Penalties/Credit Card Fees	1,168	186	183	823	2,360
Gas Rate Case Settlement	0	0	0	3,304	3,304
Interest Income	13,608	0	0	38,339	51,947
Interest Income (Water, Sewer Funds)	0	0	0	37,036	37,036
Miscellaneous Income	281	40	0	328	649
Interest Expense	(213)	0	0	(265)	(478)
Interest Expense (Gas Fund)	0	(33,532)	(3,504)	0	(37,036)
Net Nonoperating Revenues (Expenses)	21,094	(32,176)	(3,321)	79,815	65,412

Change in Net Assets Before Special Items

41,705	25,385	(2,334)	59,733	124,489
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Special Items:

Energy Efficiency and Conservation Block Grant	65,219	0	0	0	65,219
Hazard Mitigation Grant Program	380,720	0	0	0	380,720
Free Community Service (Related Party)	(143,719)	0	0	0	(143,719)
Total Special Items	302,220	0	0	0	302,220

Change in Net Assets After Special Items

343,925	25,385	(2,334)	59,733	426,709
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Net Assets Beginning of Year

5,834,350	2,892,507	1,067,640	4,619,966	14,414,463
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Net Assets End of Year

\$ 6,178,275	2,917,892	1,065,306	4,679,699	14,841,172
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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2012

	Enterprise Funds				
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
Cash Flows From Operating Activities:					
Cash Received from Customers and Users	\$ 2,002,987	515,210	236,951	927,920	3,683,068
Cash Received from Interfund Services Provided	60,187	1,046	302	4,372	65,907
Cash Received from Other Revenues	6,281	920	0	3,632	10,833
Cash Paid to Suppliers/Outside Service Providers	(1,411,172)	(190,847)	(59,490)	(652,578)	(2,314,087)
Cash Paid for Personal Services (Employees)	(285,750)	(152,291)	(101,068)	(226,296)	(765,405)
Cash Paid for Interfund Services Used	(4,922)	(30,296)	(29,615)	(1,073)	(65,906)
Cash Paid for Free Community Service (Related Party)	(244,487)	0	(5,280)	0	(249,767)
Cash Paid for Free Community Service	(8,301)	0	0	0	(8,301)
Net Cash Provided By (Used For) Operating Activities	114,823	143,742	41,800	55,977	356,342
Cash Flows From Capital and Related Financing Activities:					
Proceeds from Interfund Loan from the Gas Utility	0	625,000	0	0	625,000
Principal Payments on Interfund Loan from the Gas Utility	0	(42,528)	(15,396)	0	(57,924)
Interest Paid on Interfund Loan from the Gas Utility	0	(27,429)	(3,504)	0	(30,933)
Proceeds from Sale of Capital Assets	250	250	0	250	750
Purchases/Construction of Capital Assets	(682,286)	(674,680)	(25,276)	(71,504)	(1,453,746)
Special Item: Energy Efficiency & Conservation Block Grant Proceeds	62,076	0	0	0	62,076
Special Item: Hazard Mitigation Block Grant Program Proceeds	34,786	0	0	0	34,786
Net Cash Provided By (Used For) Capital and Related Financing Activities	(585,174)	(119,387)	(44,176)	(71,254)	(819,991)

Cash Flows From Investing Activities:

Issuance of Interfund Loan to the Water Utility	0	0	0	(625,000)	(625,000)
Principal Received on Interfund Loans	0	0	0	57,924	57,924
Interest Received on Interfund Loans	0	0	0	30,933	30,933
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	155,000	0	0	425,000	580,000
Interest Received	15,499	0	0	45,474	60,973
Customer Penalties/Credit Card Fees Received	1,168	186	183	823	2,360
Principal Received on the Rock Rapids Dev. Corp. Loans	0	0	0	11,447	11,447
Loan Issued per the Housing Development Incentive Program	(29,717)	(5,567)	0	(29,716)	(65,000)
Interfund Loan Repaid by the Revolving Loan Fund	0	0	0	501	501
Net Cash Provided By (Used For) Investing Activities	141,950	(5,381)	183	(82,614)	54,138

**Net Increase (Decrease) in Cash and
Cash Equivalents**

(328,401)	18,974	(2,193)	(97,891)	(409,511)
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Cash and Cash Equivalents Beginning of Year

541,213	260,431	193,381	757,904	1,752,929
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Cash and Cash Equivalents End of Year

\$ 212,812	279,405	191,188	660,013	1,343,418
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**Reconciliation of Operating Income (Loss) to Net Cash
Provided By (Used For) Operating Activities:**

Operating Income (Loss)	\$ 20,611	57,561	987	(20,082)	59,077
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:					
Depreciation	231,741	104,935	40,535	37,418	414,629
Special Item - Free Community Service (Related Party)	(143,719)	0	0	0	(143,719)
Proceeds from Rentals	1,000	880	0	0	1,880
Proceeds from Rentals (Related Party)	5,000	0	0	0	5,000
Proceeds from Gas Rate Case Settlement	0	0	0	3,304	3,304
Proceeds from Miscellaneous Income	281	40	0	328	649
Deposit Interest Paid	(213)	0	0	(265)	(478)
Changes in Assets and Liabilities:					
Decrease (Increase) in Accounts Receivable	(8,075)	(34,066)	963	(16,219)	(57,397)
Decrease (Increase) in Due From Other Governments (Related Party) (Non Capital Assets Related)	624	4,057	86	(273)	4,494
Decrease in Due From Other Governments (Non Grants Related)	292	6	102	1,350	1,750

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Statement of Cash Flows
Proprietary Funds**

For the Fiscal Year Ended June 30, 2012

**Reconciliation of Operating Income (Loss) to Net Cash
Provided By (Used For) Operating Activities (Continued):
Adjustments to Reconcile Operating Income
(Loss) to Net Cash Provided By (Used For)
Operating Activities (Continued):**

Changes in Assets and Liabilities (Continued):

(Increase) in Flex Spending Receivable	(3,628)	0	0	0	(3,628)
(Increase) in Inventory	(24,845)	(2,218)	0	(4,661)	(31,724)
(Increase) in Prepaid Expenses	(3,818)	(531)	(1,453)	(1,023)	(6,825)
Increase in Customer Deposits (Cash)	6,106	860	0	1,487	8,453
Increase (Decrease) in Accounts Payable (Non Capital Assets Related)	28,785	10,179	(614)	(4,053)	34,297
(Decrease) in Due to Other Governments (Related Party) (Non Capital Assets Related)	(8)	(90)	0	(2,731)	(2,829)
Increase in Due to Other Governments (Non Capital Assets Related)	3,188	459	34	430	4,111
Increase in Accrued Vacation/Comp Time Pay	2,365	1,222	922	2,556	7,065
Increase in Accrued Payroll & Payroll Liabilities	690	367	161	954	2,172
(Decrease) in Flex Spending Payable	(1,203)	0	0	0	(1,203)
Increase (Decrease) in Unearned Income	(530)	0	0	57,304	56,774
Increase in Accrued Sick Leave Pay	179	81	77	153	490

Net Cash Provided By (Used For)

Operating Activities

Enterprise Funds				
Electric Utility	Water Utility	Sewer Utility	Gas Utility	Total
\$ 114,823	143,742	41,800	55,977	356,342

**Reconciliation of Cash and Cash Equivalents at
Year End to Specific Assets Included on the
Statement of Net Assets:**

Current Assets:

Cash	\$	184,349	271,700	167,843	628,288	1,252,180
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Restricted Cash :

Customer Deposits (Cash)		28,463	7,705	0	31,725	67,893
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Depreciation Reserves (Cash)		0	0	23,345	0	23,345
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Cash and Cash Equivalents at Year End

\$	212,812	279,405	191,188	660,013	1,343,418
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**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, and gas utilities and related services to its customers. The Utilities developed a Revolving Loan Fund in fiscal year 2010/2011 to assist in the financing of approved rural economic development projects. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under the criteria of the Code of Iowa.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board except that management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the OPEB obligation in the notes to the financial statements.

The Rock Rapids Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits through a plan with the Sanford Health Plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and OPEB liability/expense. Accounting principles generally accepted in the United States of America require that this net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds. Required disclosures to be in conformity with accounting principles generally accepted in the United States of America that are omitted for this implicit rate subsidy include the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, and actuarial methods and assumptions.

Management has also decided to omit the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$249,767 (reported as free community service – related party) for the fiscal year ended June 30, 2012. The Electric Fund contributed \$97,168 in checks, \$3,600 in park lights and \$143,719 through the Retrofit Street Lighting Project (reported as a "special item") and the Sewer Fund contributed \$5,280 in checks. The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent (reported as "rental-related party") and \$11,805 for garbage/recycling billing and collection services (reported as service income-related party). The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented separately in the financial statements).

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities paid the Missouri River Energy Services \$1,106,515 for power and energy services, \$2,285 for dues and \$100 for meeting registrations. The Utilities received \$69,703 from the Missouri River Energy Services as a reimbursement for monthly capacity generation fees and generator costs, and \$23,072 as a reimbursement for the "Bright Energy Solutions Program." The Utilities purchased water from Lewis & Clark Regional Water System, Inc. in the amount of \$56,543 and paid \$5,810 for lobbying charges for fiscal year ended June 30, 2012. Financial information on each joint venture is not included with the Utilities' financial statements. In order to obtain

financial information and financial statements on each joint venture to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements, except for interfund service billings and interest charged for interfund loans. Governmental activities, which are supported by intergovernmental revenues, are reported separately from business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utilities' assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, consists of capital assets, net of accumulated depreciation/amortization.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function/program, when applicable. Unrestricted interest and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major governmental fund:

Special Revenue:

The Revolving Loan Fund is to be used to account for all funds derived from an "USDA-Rural Economic Development Grant" agreement between the Utilities and

Rural Development, through the Rural Business – Cooperative Service. This Revolving Loan Fund is to be used to assist in the financing, through the form of a loan, of approved rural economic development projects. This Fund is meant to attract, retain and/or expand business that would generate public benefits to the citizens of Rock Rapids and the surrounding area.

The Utilities reports the following major proprietary funds (the Utilities considers all the funds the Utilities has as major):

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities' water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities' sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities' gas system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Utilities consider revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Utilities.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due, as applicable. Proceeds of general long-term debt are reported as other financing sources, as applicable.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Utilities' policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of some grant agreements, the Utilities may fund certain qualifying expenses by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when qualifying expenses are incurred, there are both restricted and unrestricted net assets available to finance the qualifying expenses. It is the Utilities' policy to first apply cost-reimbursement grant resources to such qualifying expenses, followed by categorical block grants and then by general revenues.

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. The principal operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, community service donations and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including rental income, customer penalties, gas rate case settlement, miscellaneous income, interest income, gain (loss) on disposal of capital assets and interest expense.

The Utilities maintains its financial records on the accrual basis of accounting.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2012 consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term investments that are highly liquid (including restricted cash) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2012 included all of the certificates of deposit.

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, mainly for utility sales that were not paid to the Utilities as of June 30, 2012.

Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds – During the course of its operations, the Utilities has numerous transactions between utility funds and the Utilities Board of Trustees has also approved some interfund loans between utility funds. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Due from Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided and for eligible costs that have been incurred for the Energy Efficiency and Conservation Block Grant and Hazard Mitigation Grant Program.

Inventory – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Prepaid Expenses – Prepaid expenses represents insurance premiums and other expense payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

Restricted Cash – Funds set aside for deposits held by the Utilities (customer deposits restricted for application to unpaid customer accounts or for refund to customers) and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant).

Capital Assets – Capital assets, which include property, utility system improvements, vehicles, equipment and intangibles are reported in the business type activities column in the government-wide Statement of Net Assets and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets acquired prior to July 1, 2004 are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004 are defined by the Utilities as assets with initial, individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Asset Class	Amount
Utility Plant	\$10,000
Equipment, Tools and Safety Devices	\$ 5,000
Intangibles	\$20,000

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Utility Plant	5 – 50 years
Transportation Equipment	5 years
Office Equipment	5 – 10 years
Tools and Safety Devices	5 – 10 years
Communication Equipment	5 – 10 years
Meter Testing Equipment	5 – 7 years
Intangibles	5 – 50 years

Construction projects that have not been completed as of June 30, 2012 are reported as “Construction Work in Progress” on the balance sheet.

Due to Other Governments/Due to Other Governments (Related Party) – This represents state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements which will be remitted to other governments and the City of Rock Rapids.

Accrued Vacation/Comp Time Pay – The Utilities’ personnel policy provides full-time employees with vacation pay and one employee with comp time pay in varying amounts. Vacation/comp time expenses for employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements. At termination, an employee is paid for accumulated vacation/comp time. The amount recorded in the accounts for vacation/comp time pay aggregated \$58,657 at June 30, 2012 (computed based on rates of pay in effect at June 30, 2012). This liability has been presented as a current liability in the financial statements as this liability is expected to be paid within a year.

Accrued Sick Leave Pay – The Utilities’ personnel policy provides full-time employees with sick leave in varying amounts. Sick leave pay expenses for non-vested employees are charged to operations when taken by the employee. Sick leave pay expenses for vested employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements.

An employee who has been employed by the Utilities for over ten years, but less than fifteen years, and terminates employment due to retirement or death is entitled to 15% of unused accumulated allowable sick leave benefits. An employee who has been employed by the Utilities for over fifteen years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave. As of June 30, 2012, employees' vested sick leave benefits aggregated \$33,448 (computed based on rates of pay in effect at June 30, 2012). Aggregated vested sick leave benefits (15% of accumulated allowable sick leave) are included in the accounts.

A summary of changes in accrued sick pay is as follows:

	Accrued Sick Leave Pay
Balance Beginning of Year	\$ 32,958
Increases	1,380
Decreases	(890)
Balance End of Year	\$ 33,448

This liability is recorded in the Government-Wide and Proprietary Fund financial statements as a long-term liability as this liability is not expected to be payable within a year.

Unearned Income – Amounts received on customer accounts before being billed are recorded in the “unearned income” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Fund Equity – In the Governmental Fund financial statement, fund balance is classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Net Assets: Restricted – In the Proprietary Fund financial statements, restricted net assets are reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net assets restricted at June 30, 2012 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 28,463	7,705	23,345	31,725	91,238
Deposits Payable	(28,463)	(7,705)	0	(31,725)	(67,893)
Net Assets:					
Restricted (June 30, 2012)	\$ 0	0	23,345	0	23,345

The restricted net assets in the Sewer Utility Fund is for required depreciation reserves per Federal EPA requirements.

Net Assets: Invested in Capital Assets and Invested in Capital Assets, Net of Related Debt

The “Invested in Capital Assets” is reported in the Government-Wide Statement of Net Assets as \$10,035,535 and the “Invested in Capital Assets, Net of Related Debt” in the Proprietary Funds Statement of Net Assets as \$8,768,668. The \$1,266,867 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) owed by the Sewer Utility to the Gas Utility and Water Utility to the Gas Utility. The effects of these interfund loans were removed from the Government-Wide Statement of Net Assets as only external debt is reflected in that financial statement.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2012 did not exceed the final amended budget amount for the Rock Rapids Municipal Utilities in the business type activities function; however, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did exceed the original budgeted amount as part of the City of Rock Rapids’ adopted budget before the final amended budget was approved on May 30, 2012. The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared).

(2) Cash and Investments

The Utilities’ deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

Board Designated Reserves – The Utilities Board has designated money to be set aside in Proprietary Funds as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash balances as of June 30, 2012 as there is no legal responsibility that these amounts

be used for these purposes. The amount of the Board designated reserves in Proprietary Funds on June 30, 2012 is as follows

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 1,088	\$ 60,000	\$ 0	\$ 61,088
Water Utility Fund	0	89,592	46,541	136,133
Gas Utility Fund	1,193	0	0	1,193
Total	\$ 2,281	\$ 149,592	\$ 46,541	\$ 198,414

(3) Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. During the fiscal year ended June 30, 2012, the Water Utility Fund paid the Gas Utility Fund \$22,004 in principal and \$13,405 in interest on this loan. The June 30, 2012 balance on this loan was \$281,221.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 22,943	12,466	35,409
2014	23,992	11,417	35,409
2015	25,052	10,357	35,409
2016	26,159	9,250	35,409
2017	27,294	8,115	35,409
2018-2022	155,781	21,262	177,043
Total	\$ 281,221	72,867	354,088

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. During the fiscal year ended June 30, 2012, the Water Utility Fund paid the Gas Utility Fund \$20,524 in principal and \$14,024 in interest on this loan. The June 30, 2012 balance on this loan was \$295,875.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 21,469	13,079	34,548
2014	22,418	12,130	34,548
2015	23,409	11,139	34,548
2016	24,416	10,132	34,548
2017	25,523	9,025	34,548
2018-2022	145,554	27,187	172,741
2023	33,086	1,462	34,548
Total	\$ 295,875	84,154	380,029

On April 1, 2012, the Gas Utility Fund loaned an additional \$625,000 to the Water Utility Fund to assist with the payment of the gravity filter rehabilitation project costs. The loan carries a 4.33 annual percentage interest rate, annual payments are scheduled at \$47,353 and final maturity date is April 1, 2032. No payment was made of this loan during the fiscal year ended June 30, 2012. The June 30, 2012 balance on this loan was \$625,000.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 20,290	27,063	47,353
2014	21,169	26,184	47,353
2015	22,085	25,268	47,353
2016	22,975	24,378	47,353
2017	24,037	23,316	47,353
2018-2022	136,665	100,098	236,763
2023-2027	168,942	67,821	236,763
2028-2032	208,837	27,926	236,763
Total	\$ 625,000	322,054	947,054

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2016. During the fiscal year ended June 30, 2012, the Sewer Utility Fund paid the Gas Utility Fund \$15,396 in principal and \$3,504 in interest on this loan. The June 30, 2012 balance on this loan was \$64,771.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 16,157	2,743	18,900
2014	16,946	1,954	18,900
2015	17,773	1,127	18,900
2016	13,895	280	14,175
Total	\$ 64,771	6,104	70,875

The balances in the "Due From and Due to Other Utility Funds" and "Advance To and Advance From Other Utility Funds" are for the aforementioned loans between funds and accrued interest on these loans as follows:

Assets/Liabilities	Payable		Receivable
	Water Utility	Sewer Utility	Gas Utility
Due From/To:			
Loan (Current Portion)	\$ (64,702)	(16,157)	80,859
Accrued Interest on Loans	(15,360)	(0)	15,360
Total Due From/To	(80,062)	(16,157)	96,219
Advance To/From:			
Loan (Noncurrent Portion)	(1,137,394)	(48,614)	1,186,008
Total	\$ (1,217,456)	(64,771)	1,282,227

(4) Notes Receivable – Rock Rapids Development Corporation

On September 28, 2009, the Rock Rapids Municipal Utilities loaned \$140,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of approximately 28 acres of real estate in Rock Rapids, Iowa for development purposes. This promissory draw note loan earns interest at a rate of 2.5% per annum (accrued interest is to be paid annually with interest computed through December 31st of each year) and is secured by a real estate mortgage on the 28 acres of real estate purchased through the aforementioned loan funds.

The Rock Rapids Development Corporation is to pay all principal and unpaid interest due per this promissory draw note no later than thirty days after written demand for such payment by the Rock Rapids Municipal Utilities, provided, however, that the entire amount of loan outstanding and any unpaid interest shall be paid no later than twenty years after September 28, 2009, and provided further, however, that upon the sale of any part or all of the 28 acres, the Rock Rapids Development Corporation shall repay that percentage of such net sale proceeds from the sale which are equivalent to the percentage of acres sold from the original 28 acres purchased from the proceeds of this loan. If the Rock Rapids Development Corporation sells all 28 acres, the Rock Rapids Development Corporation shall repay the Rock Rapids Municipal

Utilities all unpaid principal and interest no later than thirty days after final closing on such sale.

On June 29, 2011, the Rock Rapids Municipal Utilities loaned \$75,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of a 5 acre parcel of real estate. This promissory draw note loan earns interest at a rate of 3.1% per annum (accrued interest is to be paid annually with interest computed through June 30th of each year) and is secured by a real estate mortgage on the 5 acre parcel of real estate noted above.

This promissory note shall be for a period of ten years with interest only payable annually. The Rock Rapids Development Corporation shall have the right to make additional principal payments at any time. However, upon the sale, gift, or transfer in any way of any part of all of the five acres, the Rock Rapids Development Corporation shall be required to pay to the Rock Rapids Municipal Utilities \$15,000 per acre transferred. The Rock Rapids Development Corporation shall pay this amount to the Rock Rapids Municipal Utilities no later than 30 days after any transfer of real estate.

In July 2011, the Rock Rapids Development Corporation sold approximately 1.717 acres of the 5 acres parcel of real estate. Based on an amendment to the agreement between the Utilities and the Rock Rapids Development Corporation, the Utilities allowed the \$25,751 in proceeds from the land sold to be paid in installments and the Rock Rapids Development Corporation agreed to continue paying 3.1 percent on any outstanding loan balance, and paid the Utilities \$11,447 during the fiscal year ended June 30, 2012, the Utilities received \$11,447 in principal with the remaining \$14,304, along with interest, to be repaid as follows: \$6,000 by June 30, 2013, \$6,000 by June 30, 2014 and \$2,304 by June 30, 2015.

During fiscal year ended June 30, 2012, the \$140,000 note receivable generated \$3,500 in interest income for the Gas Utility Fund and the \$75,000 note receivable generated \$2,156 in interest income for the Gas Utility Fund. On June 30, 2012, the balance on the notes receivable from the Rock Rapids Development Corporation totaled \$203,553 (\$140,000 and \$63,553, respectively) with \$6,000 being reported as a "Current Asset" and \$197,553 being reported as an "Other Asset" in the Gas Utility Fund.

(5) Notes Receivable – Rock Rapids Businesses

In July 2011, the Utilities complied with all the requirements under the Rural Economic Development Grant Agreement Program in order to be awarded a grant in the amount of \$300,000 to assist in the establishing of a Revolving Loan Fund.

The Utilities loaned from the Revolving Loan Fund \$360,000 (\$60,000 was loaned in November 2010 and \$300,000 was loaned in July 2011) to the Rock Rapids Community Affairs Corporation ("CAC") at a 0% interest rate. In August 2011, the CAC sold the commercial spec building to a businessman and subsequently assigned the contract and the collateral of the real estate to the Utilities. Payment on the note is based on a 0% interest rate (as awarded by the Revolving Loan Fund Program) with \$3,000/month in principal, due until the loan is paid in full.

During fiscal year 2011/2012, the Utilities received 30,000 in principal payments. As of June 30, 2012, the outstanding note receivable balance was \$330,000. The amount due in fiscal year 2012/2013 of \$36,000 is being reported as a "Current Asset" and the remaining amount of \$294,000 is being reported as an "Other Asset" in the Revolving Loan Fund.

(6) Note Receivable –Housing Development Incentive Program

In April 2012, the Rock Rapids Municipal Utilities Board of Trustees approved the establishment of a "Housing Development Incentive Program." This program provides for forgivable loans in the amount of \$5,000 per platted residential lot with the program available to developers of a minimum of six lots with infrastructure (including street, storm sewer, water main, etc.). The terms of the forgivable loans are that interest is to be paid annually at the established interest rate, the Utilities will receive a second mortgage to the developer's primary lender and, if there is a balance due after 15 years from the date of the loan, the remaining balance and any accrued interest will become due immediately. The loans will be forgiven in the amount of \$5,000 per lot when a lot is sold, the deed to the purchaser is recorded and accrued interest is paid up to the date of the recording of the deed. When 75% of the approved lots are sold and deeds are filed/recorded, accrued interest becomes due and once paid, the remaining loan balance will be forgiven.

In May 2012, the Utilities loaned a company \$65,000 as a forgivable loan under this program for the development of a subdivision with 13 residential lots. The loan carries a 4% interest rate with interest due annually. This loan may be forgiven in whole or in part if the requirements of the program are satisfied. Any remaining balance of the note receivable will be due on May 21, 2027. None of the note balance was forgiven and no payments were made on the balance during fiscal year 2011/2012. As of June 30, 2012, all \$65,000 of this note receivable is deemed noncurrent and reported as an "Other Asset" with \$29,717 in the Electric Utility Fund, \$5,567 in the Water Utility Fund and \$29,716 in the Gas Utility Fund

(7) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated/Amortized:				
Land	\$ 179,087	0	0	179,087
Construction Work in Progress	766,371	1,387,400	(482,991)	1,670,780
Total Capital Assets Not Being Depreciated/Amortized	945,458	1,387,400	(482,991)	1,849,867

Capital Assets Being Depreciated/Amortized:				
Utility Plant	15,291,508	496,002	0	15,787,510
Transportation Equipment	280,799	66,637	0	347,436
Office Equipment	39,782	0	0	39,782
Tools and Safety Devices	275,316	0	(8,400)	266,916
Communication Equipment	8,077	0	0	8,077
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	34,045	1,053,589	0	1,087,634
Total Capital Assets Being Depreciated/Amortized	15,951,430	1,616,228	(8,400)	17,559,258
Less Accumulated Depreciation/Amortization For:				
Utility Plant	8,451,708	349,041	0	8,800,749
Transportation Equipment	216,888	24,784	0	241,672
Office Equipment	28,233	2,524	0	30,757
Tools and Safety Devices	231,482	15,667	(8,400)	238,749
Communication Equipment	8,079	0	0	8,079
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	9,078	22,613	0	31,691
Total Accumulated Depreciation/Amortization	8,967,361	414,629	(8,400)	9,373,590
Total Capital Assets Being Depreciated/Amortized, Net	6,984,069	1,201,599	0	8,185,668
Business Type Capital Assets, Net	\$ 7,929,527	2,588,999	482,991	10,035,533

Depreciation/amortization expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 231,741
Water Utility	104,935
Sewer Utility	40,535
Gas Utility	37,418
Total Depreciation/Amortization Expense – Business Type Activities	<u>\$ 414,629</u>

Intangible (Lewis & Clark Project Membership); Utility Plant (Lewis & Clark Project Services Lines)

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agreed to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees), related membership/lobbying fees and to directly pay for design and construction of service lines plus any other member specific costs.

In October 2011, the Utilities began to receive water through the Lewis and Clark system as the construction of the distribution system was substantially done and water was available through the system. As of June 30, 2012, the Utilities reclassified the membership costs from an "Other Asset" to a "Capital Asset" by capitalizing an "intangible asset" of \$1,053,589, which represents the total amount paid toward the cost of membership, which includes base system costs and related membership/lobbying fees. The "intangible asset" is being amortized over 50 years which represents the length of time the distribution system is guaranteed to be available to its members. Since the inception of the agreement, the Utilities also paid \$56,398 for design and construction of service lines plus other member specific fees. As of June 30, 2012, these costs have been removed from "construction work in progress" and placed in the "utility plant."

If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., whether in the form of membership fees, construction payments or amounts placed or on deposit in the Maintenance and Repair Fund, the Capital Improvement Fund or the Operating Reserve Fund.

The Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Regional Water System, Inc.

(8) Due to Other Governments/Due to Other Governments -- Related Party

The Utilities purchases services from other governmental units, pays required fees to regulatory entities, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses/project costs, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments follows:

Fund	Description	Amount
Electric Utility	Fees, State Sales and Use Tax	\$ 8,802
Water Utility	Fees, State Sales and Use Tax	1,790
Sewer Utility	State Sales and Use Tax	240
Gas Utility	Fees, State Sales and Use Tax	1,462
Total		<u>\$ 12,294</u>

A summary of amounts due to other governments–related party (City of Rock Rapids) follows:

Fund	Description	Amount
Electric Utility	Expense Reimbursement	\$ 158
Water Utility	Expense/ Project Costs Reimbursements	9,387
Sewer Utility	Expense Reimbursement	45
Gas Utility	Garbage/Recycling Collections and Expense Reimbursement	18,698
Total		<u>\$ 28,288</u>

(9) Rural Economic Development, EECB and Hazard Mitigation Grants/ Free Community Service (Related Party) – “Special Items”

During the fiscal year ended June 30, 2012, the Rock Rapids Municipal Utilities recognized \$300,000 USDA-Rural Economic Development Grant revenue, which along with a \$60,000 matching contribution from the Gas Utility, was used to help in establishing the Utilities Revolving Loan Fund. The Utilities and the City of Rock Rapids have been approved for a \$105,579 Energy Efficiency and Conservation Block (EECB) Grant from the U.S. Department of Energy (passed through the Iowa offices of Energy Independence) for the purpose of replacing street lighting in Rock Rapids (Retrofit Street Lighting Project). For the year ended June 30, 2012, the Utilities is reporting EECB Grant income of \$65,219 (\$5,293 reported as part of “Due From Other Governments. See Note (14) “Commitments” for detail of the remaining amount to be recognized as revenue and matching funds to be contributed from the Utilities and the City.

The Utilities is reporting the \$143,719 in costs incurred for the Retrofit Street Lighting Project as “free community service (related party)” under the premise the replacing of the street lighting is a benefit to the City of Rock Rapids.

The Rock Rapids Municipal Utilities has been awarded a Hazard Mitigation Grant from the U.S. Department of Homeland Security (passed through the Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division). The grant is to help offset up to 85% of the costs incurred by the Utilities for the 69 KV Line improvement project. For the fiscal year ended June 30, 2012, the Utilities is reporting Hazard Mitigation Grant income of \$380,720 (\$345,934 reported as part of “Due From Other Governments”).

(10) Major Customer

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$245,754 or 45.7% of the total operating water revenues for the fiscal year ended June 30, 2012.

(11) Pension and Retirement Benefits

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the Municipal Utilities is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$43,859, \$38,410 and \$35,491, respectively, equal to the required contributions for each year.

(12) Risk Management

The Rock Rapids Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Employee Health Insurance Coverage

The Rock Rapids Municipal Utilities provided group health insurance coverage for eligible employees through the Sanford Health Plan during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2012, the deductible for family coverage was \$2,000 while the deductible for individual coverage was \$1,000. The Utilities agreed to pay up to a maximum of 50% of the deductible incurred by the employee (\$1,000 for family coverage and \$500 for individual coverage) and 100% of the cost of insurance premiums for single coverage and 80% of the additional insurance premiums for dependents. The Utilities expense for health insurance premiums and any deductible paid is accounted for the appropriate utility fund.

(14) Commitments

In September 2010, the Utilities entered into a contract for \$164,356 (\$121,221 plus \$43,135 in change orders) for substation improvements. As of June 30, 2012, costs of \$145,107 have been incurred by the Electric Utility Fund on this contract. The balance of \$19,249 remaining on the contract at June 30, 2012 will be paid as work on the project is completed.

The Utilities and the City have been approved for a \$105,579 Energy Efficiency and Conservation Block Grant for the purpose of replacing street lighting in Rock Rapids (Retrofit Street Lighting Project). The Utilities and the City must match the \$105,579 grant. The Utilities has committed to match \$103,579 from the Electric Fund (\$91,921 in cash and \$11,658 in the form of in-kind labor contributions to the project). Additionally, the City of Rock Rapids will provide in-kind labor contributions to the project of \$2,000. As of June 30, 2012, the Utilities has incurred reimbursable costs of \$78,369 (\$73,076 received as of June 30, 2012), as well as provided \$88,350 of matching funds towards the project. As of June 30, 2012, the remaining amount to be received from the grant is \$27,210, with \$17,229 of the matching funds to be contributed from the Utilities and the City (see subsequent events note).

(15) Subsequent Events

In November 2012, the Board approved a contract for \$532,793 for the ~~Dove~~ Avenue service connection project (original contract of \$539,074 less change orders to decrease the contract by \$6,281). Payments from the Water Utility Fund for work in progress through the date of the audit report total \$502,097. Additionally, in December 2012, the Utilities entered into an agreement related to this project with Lyon & Sioux Rural Water System, Inc. Under the agreement, Lyon & Sioux Rural Water will reimburse the Utilities for 49% of the projects construction costs; \$150,000 paid to the Utilities by December 31, 2012 and the remainder due by December 31, 2013, with interest accruing as of January 1, 2013 at 4.42% interest rate.

In September 2012, the Utilities received final payment from the Energy Efficiency and Conservation Block Grant. After the fiscal year ended June 30, 2012, the Utilities received \$20,802 (includes receivable as of June 30, 2012 of \$5,292.84). The total revenue received from the grant amounted to \$93,878, due to the final project costs being less than budgeted.

(16) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Required Supplementary Information**

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

**Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) -
Governmental Fund and Proprietary Funds**

Required Supplementary Information

For the Fiscal Year Ended June 30, 2012

	Governmental Fund Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Receipts:						
Use of Money and Property	\$ 0	101,080	101,080	0	0	101,080
Intergovernmental	300,000	96,862	396,862	0	387,000	9,862
Charges for Service:						
Electric Utility	0	2,063,174	2,063,174	2,188,160	2,188,160	(124,986)
Water Utility	0	516,255	516,255	508,390	508,390	7,865
Sewer Utility	0	237,253	237,253	243,000	243,000	(5,747)
Gas Utility	0	932,292	932,292	1,421,873	1,421,873	(489,581)
Miscellaneous	29,499	15,639	45,138	0	0	45,138
Total Receipts	329,499	3,962,555	4,292,054	4,361,423	4,748,423	(456,369)
Disbursements:						
Business Type Activities:						
Revolving Loans to Businesses	300,000	0	300,000	0	360,000	60,000
Electric Utility	0	2,666,635	2,666,635	2,087,788	2,737,788	71,153
Water Utility	0	1,081,109	1,081,109	507,511	1,132,511	51,402
Sewer Utility	0	224,233	224,233	242,740	242,740	18,507
Gas Utility	0	980,839	980,839	1,294,402	1,294,402	313,563
Total Disbursements (Business Type Activities)	300,000	4,952,816	5,252,816	4,132,441	5,767,441	514,625
Excess (Deficiency) of Receipts Over (Under) Disbursements	29,499	(990,261)	(960,762)	228,982	(1,019,018)	58,256
Other Financing Sources	0	750	750	0	0	750
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements	29,499	(989,511)	(960,012)	228,982	(1,019,018)	59,006
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	501	5,107,929	5,108,430	5,462,016	5,462,016	(353,586)
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 30,000	4,118,418	4,148,418	5,690,998	4,442,998	(294,580)

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule -- Budget to GAAP Reconciliation

Required Supplementary Information

For the Fiscal Year Ended June 30, 2012

	Governmental Fund			Proprietary Funds		
	Special Revenue			Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues/Special Items	\$ 329,499	(29,499)	300,000	3,962,555	316,805	4,279,360
Disbursements/Expenses/Special Items	300,000	(300,000)	0	4,952,816	(1,100,165)	3,852,651
Net	29,499	270,501	300,000	(990,261)	1,416,970	426,709
Other Financing Sources	0	0	0	750	(750)	0
Beginning Fund Balances/Net Assets	501	59,499	60,000	5,107,929	9,306,534	14,414,463
Ending Fund Balances/Net Assets	<u>\$ 30,000</u>	<u>330,000</u>	<u>360,000</u>	<u>4,118,418</u>	<u>10,722,754</u>	<u>14,841,172</u>

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting

For the Fiscal Year Ended June 30, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the major special Revenue Fund and each major Enterprise Fund.

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing for all funds. The budget is included in the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted all its receipts under the “intergovernmental” and “charges for service” classifications. Actual receipts primarily came from the “intergovernmental” and “charges for service” classification; however, the Utilities did also have some receipts come from the “use of money and property” and “miscellaneous” receipts classifications. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Utilities – Special Revenue Fund and the Enterprise Funds. All Utility disbursements are included in the “business type/enterprises activities” function classification on the City’s adopted budget. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, one budget amendment increased budgeted receipts by \$387,000 and budgeted disbursements by \$1,635,000 for the Rock Rapids Municipal Utilities. This budget amendment is reflected in the final budgeted amounts.

During the fiscal year ended June 30, 2012, disbursements in the business type/enterprises activities function exceeded the amount of the original adopted budget before the amended budget was approved by the City Council on May 30, 2012.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Supplementary Information

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Assets

	June 30,			
	2012	2011	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 184,349	518,856	(334,507)	(64%)
Certificates of Deposit	875,000	1,030,000	(155,000)	(15%)
Accounts Receivable	130,850	122,775	8,075	7%
Due From Other Governments (Related Party)	4,354	4,978	(624)	(13%)
Due From Other Governments	355,408	6,623	348,785	5266%
Interest Receivable	3,891	5,782	(1,891)	(33%)
Flex Spending Receivable	3,628	0	3,628	N/A
Inventory	73,156	48,311	24,845	51%
Prepaid Expenses	28,937	25,119	3,818	15%
Total Current Assets	1,659,573	1,762,444	(102,871)	(6%)
Restricted Cash:				
Customer Deposits	28,463	22,357	6,106	27%
Capital Assets:				
Land	46,913	46,913	0	0%
Utility Plant	8,157,889	8,025,757	132,132	2%
Transportation Equipment	178,105	111,468	66,637	60%
Office Equipment	24,958	24,958	0	0%
Tools and Safety Devices	126,252	129,052	(2,800)	(2%)
Communication Equipment	7,071	7,071	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	8,569,413	8,373,444	195,969	2%
Less: Accumulated Depreciation/Amortization	(4,838,305)	(4,609,364)	(228,941)	5%
Capital Assets – Net (Before W.I.P)	3,731,108	3,764,080	(32,972)	(1%)
Construction Work in Progress	885,161	422,290	462,871	110%
Net Capital Assets	4,616,269	4,186,370	429,899	10%
Other Assets:				
Note Receivable - Housing Development Incentive Program	29,717	0	29,717	N/A
Total Assets	6,334,022	5,971,171	362,851	6%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	49,501	18,015	31,486	175%
Due To Other Governments (Related Party)	158	166	(8)	(5%)
Due To Other Governments	8,802	6,842	1,960	29%
Construction Contracts Payable	28,675	50,794	(22,119)	(44%)
Accrued Vacation/Comp Time Pay	21,408	19,043	2,365	12%
Accrued Payroll & Payroll Liabilities	6,623	5,933	690	12%
Flex Spending Payable	0	1,203	(1,203)	(100%)
Unearned Income	0	530	(530)	(100%)
Total Current Liabilities	115,167	102,526	12,641	12%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	28,463	22,357	6,106	27%
Long-Term Liability:				
Accrued Sick Leave Pay	12,117	11,938	179	1%
Total Liabilities	155,747	136,821	18,926	14%
Net Assets				
Invested in Capital Assets	4,616,269	4,186,370	429,899	10%
Unrestricted	1,562,006	1,647,980	(85,974)	(5%)
Total Net Assets	\$ 6,178,275	5,834,350	343,925	6%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Assets				
Current Assets:				
Cash	\$ 184,349	355,857	(171,508)	(48%)
Certificates of Deposit	875,000	1,305,000	(430,000)	(33%)
Accounts Receivable	130,850	126,356	4,494	4%
Due From Other Governments (Related Party)	4,354	11,784	(7,430)	(63%)
Due From Other Governments	355,408	5,257	350,151	6661%
Interest Receivable	3,891	6,284	(2,393)	(38%)
Flex Spending Receivable	3,628	0	3,628	N/A
Inventory	73,156	47,353	25,803	54%
Prepaid Expenses	28,937	24,902	4,035	16%
Total Current Assets	1,659,573	1,882,793	(223,220)	(12%)
Restricted Cash:				
Customer Deposits	28,463	17,691	10,772	61%
Capital Assets:				
Land	46,913	46,913	0	0%
Utility Plant	8,157,889	7,917,388	240,501	3%
Transportation Equipment	178,105	111,468	66,637	60%
Office Equipment	24,958	24,958	0	0%
Tools and Safety Devices	126,252	129,052	(2,800)	(2%)
Communication Equipment	7,071	7,071	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	8,569,413	8,265,075	304,338	4%
Less: Accumulated Depreciation/Amortization	(4,838,305)	(4,392,355)	(445,950)	10%
Capital Assets – Net (Before W.I.P)	3,731,108	3,872,720	(141,612)	(4%)
Construction Work in Progress	885,161	8,940	876,221	9801%
Net Capital Assets	4,616,269	3,881,660	734,609	19%
Other Assets:				
Note Receivable - Housing Development Incentive Program	29,717	0	29,717	N/A
Total Assets	6,334,022	5,782,144	551,878	10%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	49,501	21,561	27,940	130%
Due To Other Governments (Related Party)	158	168	(10)	(6%)
Due To Other Governments	8,802	5,249	3,553	68%
Construction Contracts Payable	28,675	0	28,675	N/A
Accrued Vacation/Comp Time Pay	21,408	0	21,408	N/A
Accrued Compensated Absences Pay	0	26,764	(26,764)	(100%)
Accrued Payroll & Payroll Liabilities	6,623	3,926	2,697	69%
Flex Spending Payable	0	1,928	(1,928)	(100%)
Unearned Income	0	147	(147)	(100%)
Total Current Liabilities (Payable From Current Assets)	115,167	59,743	55,424	93%
Liabilities Payable From Restricted Cash:				
Customer Deposits	28,463	17,691	10,772	61%
Long-Term Liability:				
Accrued Sick Leave Pay	12,117	0	12,117	N/A
Total Liabilities	155,747	77,434	78,313	101%
Net Assets				
Invested in Capital Assets	4,616,269	3,881,660	734,609	19%
Unrestricted	1,562,006	1,823,050	(261,044)	(14%)
Total Net Assets	\$ 6,178,275	5,704,710	473,565	8%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2011		
Operating Revenues:				
Residential Sales	\$ 1,033,567	1,058,985	(25,418)	(2%)
Commercial Sales	963,114	972,168	(9,054)	(1%)
Public Street and Highway Lighting	29,035	32,363	(3,328)	(10%)
Wind Power – Residential and Commercial	486	548	(62)	(11%)
Material and Service Sales	31,348	5,571	25,777	463%
Service Income	3,528	4,840	(1,312)	(27%)
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	2,065,210	2,078,607	(13,397)	(1%)
Operating Expenses:				
Production/Processing Expense	1,282,513	1,231,074	51,439	4%
Distribution Expense	180,293	185,478	(5,185)	(3%)
Accounting and Collecting	24,928	29,717	(4,789)	(16%)
Administrative and General	179,079	172,855	6,224	4%
Free Community Service (Related Party)	100,768	106,314	(5,546)	(5%)
Free Community Service	8,301	16,950	(8,649)	(51%)
Transportation	5,428	4,929	499	10%
Depreciation	231,741	217,009	14,732	7%
Payroll Taxes	31,548	28,770	2,778	10%
Total Operating Expenses	2,044,599	1,993,096	51,503	3%
Operating Income	20,611	85,511	(64,900)	(76%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	0	250	N/A
Rentals	1,000	1,000	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,168	1,404	(236)	(17%)
Miscellaneous Income	281	0	281	N/A
Interest Income	13,608	19,928	(6,320)	(32%)
Hail Insurance Proceeds	0	3,780	(3,780)	(100%)
Interest Expense	(213)	(133)	(80)	60%
Net Nonoperating Revenues (Expenses)	21,094	30,979	(9,885)	(32%)
Change in Net Assets Before Special Item	41,705	116,490	(74,785)	(64%)
Special Items:				
Energy Efficiency and Conservation Block Grant	65,219	13,150	52,069	396%
Hazard Mitigation Grant Program	380,720	0	380,720	N/A
Free Community Service (Related Party)	(143,719)	0	(143,719)	N/A
Total Special Items	302,220	13,150	289,070	2198%
Change in Net Assets After Special Items	343,925	129,640	214,285	165%
Net Assets Beginning of Year	5,834,350	5,704,710	129,640	2%
Net Assets End of Year	\$ 6,178,275	5,834,350	343,925	6%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2010		
Operating Revenues:				
Residential Sales	\$ 1,033,567	911,890	121,677	13%
Commercial Sales	963,114	877,898	85,216	10%
Public Street and Highway Lighting	29,035	29,161	(126)	(0%)
Wind Power – Residential and Commercial	486	552	(66)	(12%)
Material and Service Sales	31,348	6,884	24,464	355%
Service Income	3,528	3,189	339	11%
Service Income (Related Party)	4,132	4,045	87	2%
Total Operating Revenues	2,065,210	1,833,619	231,591	13%
Operating Expenses:				
Production/Processing Expense	1,282,513	1,126,899	155,614	14%
Distribution Expense	180,293	151,669	28,624	19%
Accounting and Collecting	24,928	32,259	(7,331)	(23%)
Administrative and General	179,079	178,949	130	0%
Free Community Service (Related Party)	100,768	115,267	(14,499)	(13%)
Free Community Service	8,301	8,500	(199)	(2%)
Transportation	5,428	11,654	(6,226)	(53%)
Depreciation	231,741	213,367	18,374	9%
Payroll Taxes	31,548	28,311	3,237	11%
Total Operating Expenses	2,044,599	1,866,875	177,724	10%
Operating Income (Loss)	20,611	(33,256)	53,867	(162%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	0	250	N/A
Rentals	1,000	1,000	0	0%
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,168	869	299	34%
Miscellaneous Income	281	72	209	290%
Interest Income	13,608	32,291	(18,683)	(58%)
Free Community Service Agreement	0	526	(526)	(100%)
Hail Insurance Proceeds	0	(2,351)	2,351	(100%)
Interest Expense	(213)	(171)	(42)	25%
Net Nonoperating Revenues (Expenses)	21,094	37,236	(16,142)	(43%)
Change in Net Assets Before Special Items	41,705	3,980	37,725	948%
Special Items:				
Energy Efficiency and Conservation				
Block Grant	65,219	0	65,219	N/A
Hazard Mitigation Grant Program	380,720	0	380,720	N/A
Free Community Service (Related Party)	(143,719)	0	(143,719)	N/A
Total Special Items	302,220	0	302,220	N/A
Change in Net Assets After Special Items	343,925	3,980	339,945	8541%
Net Assets Beginning of Year	5,834,350	5,700,730	133,620	2%
Net Assets End of Year	\$ 6,178,275	\$ 5,704,710	473,565	8%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Assets				
Current Assets:				
Cash	\$ 271,700	253,586	18,114	7%
Accounts Receivable	70,675	36,609	34,066	93%
Due From Other Governments (Related Party)	602	11,920	(11,318)	(95%)
Due From Other Governments	468	474	(6)	(1%)
Inventory	27,340	25,122	2,218	9%
Prepaid Expenses	16,593	16,062	531	3%
Total Current Assets	387,378	343,773	43,605	13%
Restricted Cash:				
Customer Deposits	7,705	6,845	860	13%
Capital Assets:				
Land	118,311	118,311	0	0%
Utility Plant	4,321,286	4,123,355	197,931	5%
Transportation Equipment	29,951	29,951	0	0%
Office Equipment	6,498	6,498	0	0%
Tools and Safety Devices	42,316	45,116	(2,800)	(6%)
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	6,710	1,053,589	15702%
Total Capital Assets (Before W.I.P.)	5,585,335	4,336,615	1,248,720	29%
Less: Accumulated Depreciation/Amortization	(2,473,693)	(2,371,558)	(102,135)	4%
Capital Assets - Net (Before W.I.P.)	3,111,642	1,965,057	1,146,585	58%
Construction Work in Progress	721,435	208,701	512,734	246%
Net Capital Assets	3,833,077	2,173,758	1,659,319	76%
Other Assets:				
Note Receivable - Housing Development				
Incentive Program	5,567	0	5,567	N/A
Lewis & Clark Project Membership (Related Party)	0	1,053,588	(1,053,588)	(100%)
Total Other Assets	5,567	1,053,588	(1,048,021)	(99%)
Total Assets	4,233,727	3,577,964	655,763	18%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	29,014	30,418	(1,404)	(5%)
Due To Other Utility Fund	80,062	51,785	28,277	55%
Due To Other Governments (Related Party)	9,387	90	9,297	10330%
Due To Other Governments	1,790	1,331	459	34%
Construction Contracts Payable	30,922	0	30,922	N/A
Accrued Vacation/Comp Time Pay	11,154	9,932	1,222	12%
Accrued Compensated Absences Pay	0	0	0	N/A
Accrued Payroll & Payroll Liabilities	2,885	2,518	367	15%
Total Current Liabilities (Payable From Current Assets)	165,214	96,074	69,140	72%
Liabilities Payable From Restricted Cash:				
Customer Deposits	7,705	6,845	860	13%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,522	5,441	81	1%
Advance From Other Utility Fund	1,137,394	577,097	560,297	97%
Total Long-Term Liabilities	1,142,916	582,538	560,378	96%
Total Liabilities	1,315,835	685,457	630,378	92%
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,630,981	2,173,758	457,223	21%
Unrestricted	286,911	718,749	(431,838)	(60%)
Total Net Assets	\$ 2,917,892	2,892,507	25,385	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Assets				
Current Assets:				
Cash	\$ 271,700	338,226	(66,526)	(20%)
Certificates of Deposit	0	50,000	(50,000)	(100%)
Accounts Receivable	70,675	36,406	34,269	94%
Due From Other Governments (Related Party)	602	721	(119)	(17%)
Due From Other Governments	468	695	(227)	(33%)
Interest Receivable	0	93	(93)	(100%)
Inventory	27,340	25,856	1,484	6%
Prepaid Expenses	16,593	14,698	1,895	13%
Total Current Assets	387,378	466,695	(79,317)	(17%)
Restricted Cash:				
Customer Deposits	7,705	5,580	2,125	38%
Capital Assets:				
Land	118,311	118,311	0	0%
Utility Plant	4,321,286	3,974,790	346,496	9%
Transportation Equipment	29,951	18,330	11,621	63%
Office Equipment	6,498	6,498	0	0%
Tools and Safety Devices	42,316	45,116	(2,800)	(6%)
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	6,710	1,053,589	15702%
Total Capital Assets (Before W.I.P.)	5,585,335	4,176,429	1,408,906	34%
Less: Accumulated Depreciation/Amortization	(2,473,693)	(2,286,885)	(186,808)	8%
Capital Assets - Net (Before W.I.P.)	3,111,642	1,889,544	1,222,098	65%
Construction Work in Progress	721,435	139,193	582,242	418%
Net Capital Assets	3,833,077	2,028,737	1,804,340	89%
Other Assets:				
Note Receivable - Housing Development Incentive Program	5,567	0	5,567	N/A
Lewis & Clark Project Membership (Related Party)	0	1,047,777	(1,047,777)	(100%)
Total Other Assets	5,567	1,047,777	(1,042,210)	(99%)
Total Assets	4,233,727	3,548,789	684,938	19%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Net Assets

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2012	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	29,014	15,542	13,472	87%
Due To Other Utility Fund	80,062	50,639	29,423	58%
Due To Other Governments (Related Party)	9,387	90	9,297	10330%
Due To Other Governments	1,790	1,438	352	24%
Construction Contracts Payable	30,922	36,299	(5,377)	(15%)
Accrued Vacation/Comp Time Pay	11,154	0	11,154	N/A
Accrued Compensated Absences Pay	0	11,791	(11,791)	(100%)
Accrued Payroll & Payroll Liabilities	2,885	3,157	(272)	(9%)
Total Current Liabilities	165,214	118,956	46,258	39%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	7,705	5,580	2,125	38%
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,522	0	5,522	N/A
Advance From Other Utility Fund	1,137,394	619,624	517,770	84%
Total Long-Term Liabilities	1,142,916	619,624	523,292	84%
Total Liabilities	1,315,835	744,160	571,675	77%
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,630,981	2,028,737	602,244	30%
Unrestricted	286,911	775,892	(488,981)	(63%)
Total Net Assets	\$ 2,917,892	2,804,629	113,263	4%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2011		
Operating Revenues:				
Water Sales – Metered	\$ 259,542	250,839	8,703	3%
Water Sales – Rural Water System	245,754	179,379	66,375	37%
Water Sales – Tank Loads	614	372	242	65%
Material and Service Sales	29,289	4,149	25,140	606%
Service Income	577	592	(15)	(3%)
Service Income (Related Party)	2,361	2,361	0	0%
Total Operating Revenues	538,137	437,692	100,445	23%
Operating Expenses:				
Production/Processing Expense	152,297	55,948	96,349	172%
Distribution Expense	85,038	61,045	23,993	39%
Accounting and Collecting	14,927	17,882	(2,955)	(17%)
Administrative and General	104,999	96,242	8,757	9%
Free Community Service	0	1,550	(1,550)	(100%)
Transportation	1,662	1,396	266	19%
Depreciation	104,935	84,673	20,262	24%
Payroll Taxes	16,718	17,101	(383)	(2%)
Total Operating Expenses	480,576	335,837	144,739	43%
Operating Income	57,561	101,855	(44,294)	(43%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	9,650	(9,400)	(97%)
Rentals	880	880	0	0%
Customer Penalties	186	215	(29)	(13%)
Interest Income	0	417	(417)	(100%)
Hail Insurance Proceeds	0	3,436	(3,436)	(100%)
Miscellaneous Income	40	0	40	N/A
Interest Expense (Gas Fund)	(33,532)	(28,575)	(4,957)	17%
Net Nonoperating Revenues (Expenses)	(32,176)	(13,977)	(18,199)	130%
Change in Net Assets	25,385	87,878	(62,493)	(71%)
Net Assets Beginning of Year	2,892,507	2,804,629	87,878	3%
Net Assets End of Year	\$ 2,917,892	2,892,507	25,385	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Water Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of	Percentage
	2012	2010	Change	of Change
Operating Revenues:				
Water Sales – Metered	259,542	257,463	2,079	1%
Water Sales – Rural Water System	245,754	207,590	38,164	18%
Water Sales – Tank Loads	614	612	2	0%
Material and Service Sales	29,289	73	29,216	40022%
Service Income	577	374	203	54%
Service Income (Related Party)	2,361	2,311	50	2%
Total Operating Revenues	538,137	468,423	69,714	15%
Operating Expenses:				
Production/Processing Expense	152,297	78,583	73,714	94%
Distribution Expense	85,038	126,900	(41,862)	(33%)
Accounting and Collecting	14,927	16,645	(1,718)	(10%)
Administrative and General	104,999	88,230	16,769	19%
Free Community Service	0	1,400	(1,400)	(100%)
Transportation	1,662	2,316	(654)	(28%)
Depreciation	104,935	75,361	29,574	39%
Payroll Taxes	16,718	17,204	(486)	(3%)
Total Operating Expenses	480,576	406,639	73,937	18%
Operating Income	57,561	61,784	(4,223)	(7%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	0	250	N/A
Rentals	880	880	0	0%
Customer Penalties	186	153	33	22%
Interest Income	0	671	(671)	(100%)
Miscellaneous Income	40	(2,867)	2,907	(101%)
Interest Expense (Gas Fund)	(33,532)	(30,327)	(3,205)	11%
Net Nonoperating Revenues (Expenses)	(32,176)	(31,490)	(686)	2%
Change in Net Assets	25,385	30,294	(4,909)	(16%)
Net Assets Beginning of Year	2,892,507	2,774,335	118,172	4%
Net Assets End of Year	\$ 2,917,892	2,804,629	113,263	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Assets				
Current Assets:				
Cash	\$ 167,843	180,803	(12,960)	(7%)
Accounts Receivable	18,084	19,047	(963)	(5%)
Due From Other Governments (Related Party)	506	592	(86)	(15%)
Due From Other Governments	444	546	(102)	(19%)
Prepaid Expenses	13,823	12,370	1,453	12%
Total Current Assets	200,700	213,358	(12,658)	(6%)
Restricted Cash:				
Depreciation Reserves	23,345	12,578	10,767	86%
Capital Assets:				
Utility Plant	2,235,191	2,217,179	18,012	1%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	730	0	0%
Tools and Safety Devices	25,251	30,251	(5,000)	(17%)
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,302,907	2,289,895	13,012	1%
Less: Accumulated Depreciation/Amortization	(1,443,228)	(1,402,693)	(40,535)	3%
Capital Assets - Net (Before W.I.P.)	859,679	887,202	(27,523)	(3%)
Construction Work in Progress	64,184	53,940	10,244	19%
Net Capital Assets	923,863	941,142	(17,279)	(2%)
Total Assets	1,147,908	1,167,078	(19,170)	(2%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,964	2,578	(614)	(24%)
Due to Other Utility Fund	16,157	15,396	761	5%
Due To Other Governments (Related Party)	45	45	0	0%
Due To Other Governments	240	206	34	17%
Construction Contracts Payable	0	2,020	(2,020)	(100%)
Accrued Vacation/Comp Time Pay	8,066	7,144	922	13%
Accrued Payroll & Payroll Liabilities	2,139	1,978	161	8%
Total Current Liabilities	28,611	29,367	(756)	(3%)
(Payable From Current Assets)				
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,377	5,300	77	1%
Advance From Other Utility Fund	48,614	64,771	(16,157)	(25%)
Total Long-Term Liabilities	53,991	70,071	(16,080)	(23%)
Total Liabilities	82,602	99,438	(16,836)	(17%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	859,092	860,975	(1,883)	(0%)
Restricted for:				
Depreciation Reserves	23,345	12,578	10,767	86%
Unrestricted	182,869	194,087	(11,218)	(6%)
Total Net Assets	\$ 1,065,306	1,067,640	(2,334)	(0%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Assets				
Current Assets:				
Cash	\$ 167,843	230,074	(62,231)	(27%)
Certificates of Deposit	-	25,000	(25,000)	(100%)
Accounts Receivable	18,084	19,048	(964)	(5%)
Due From Other Governments (Related Party)	506	618	(112)	(18%)
Due From Other Governments	444	9,605	(9,161)	(95%)
Interest Receivable	-	44	(44)	(100%)
Prepaid Expenses	13,823	12,284	1,539	13%
Total Current Assets	200,700	296,673	(95,973)	(32%)
Restricted Cash:				
Depreciation Reserves	23,345	9,194	14,151	154%
Capital Assets:				
Utility Plant	2,235,191	2,031,280	203,911	10%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	730	730	0	0%
Tools and Safety Devices	25,251	30,251	(5,000)	(17%)
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,302,907	2,103,996	198,911	9%
Less: Accumulated Depreciation/Amortization	(1,443,228)	(1,367,903)	(75,325)	6%
Capital Assets - Net (Before W.I.P.)	859,679	736,093	123,586	17%
Construction Work in Progress	64,184	147,102	(82,918)	(56%)
Net Capital Assets	923,863	883,195	40,668	5%
Total Assets	1,147,908	1,189,062	(41,154)	(3%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Net Assets

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2012	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,964	9,893	(7,929)	(80%)
Due to Other Utility Fund	16,157	14,731	1,426	10%
Due To Other Governments (Related Party)	45	45	0	0%
Due To Other Governments	240	220	20	9%
Construction Contracts Payable	0	4,692	(4,692)	(100%)
Accrued Vacation/Comp Time Pay	8,066	0	8,066	N/A
Accrued Compensated Absences Pay	0	11,267	(11,267)	(100%)
Accrued Payroll & Payroll Liabilities	2,139	1,651	488	30%
Total Current Liabilities (Payable From Current Assets)	28,611	42,499	(13,888)	(33%)
Long-Term Liabilities:				
Accrued Sick Leave Pay	5,377	0	5,377	N/A
Advance From Other Utility Fund	48,614	80,167	(31,553)	(39%)
Total Long-Term Liabilities	53,991	80,167	(26,176)	(33%)
Total Liabilities	82,602	122,666	(40,064)	(33%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	859,092	788,339	70,753	9%
Restricted for:				
Depreciation Reserves	23,345	9,194	14,151	154%
Unrestricted	182,869	268,863	(85,994)	(32%)
Total Net Assets	\$ 1,065,306	1,066,396	(1,090)	(0%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2011		
Operating Revenues:				
Sewer Service	\$ 234,922	236,370	(1,448)	(1%)
Material and Service Sales	0	450	(450)	(100%)
Service Income (Related Party)	1,180	1,180	0	0%
Total Operating Revenues	236,102	238,000	(1,898)	(1%)
Operating Expenses:				
Production/Processing Expense	113,853	119,463	(5,610)	(5%)
Accounting and Collecting	6,615	7,068	(453)	(6%)
Administrative and General	54,007	55,279	(1,272)	(2%)
Free Community Service (Related Party)	5,280	3,838	1,442	38%
Transportation	2,982	3,098	(116)	(4%)
Depreciation	40,535	34,790	5,745	17%
Payroll Taxes	11,843	11,480	363	3%
Total Operating Expenses	235,115	235,016	99	0%
Operating Income	987	2,984	(1,997)	(67%)
Nonoperating Revenues (Expenses):				
Customer Penalties	183	204	(21)	(10%)
Interest Income	0	355	(355)	(100%)
Hail Insurance Proceeds	0	1,001	(1,001)	(100%)
Interest Expense (Gas Fund)	(3,504)	(4,169)	665	(16%)
Net Nonoperating Revenues (Expenses)	(3,321)	(2,609)	(712)	27%
Change in Net Assets Before Special Item	(2,334)	375	(2,709)	(722%)
Special Item:				
WTFAP Grant	0	869	(869)	(100%)
Change in Net Assets After Special Item	(2,334)	1,244	(3,578)	(288%)
Net Assets Beginning of Year	1,067,640	1,066,396	1,244	0%
Net Assets End of Year	\$ 1,065,306	1,067,640	(2,334)	(0%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Sewer Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2010		
Operating Revenues:				
Sewer Service	\$ 234,922	236,157	(1,235)	(1%)
Service Income (Related Party)	1,180	1,156	24	2%
Total Operating Revenues	236,102	237,313	(1,211)	(1%)
Operating Expenses:				
Production/Processing Expense	113,853	98,149	15,704	16%
Accounting and Collecting	6,615	6,565	50	1%
Administrative and General	54,007	51,006	3,001	6%
Free Community Service (Related Party)	5,280	3,694	1,586	43%
Transportation	2,982	2,456	526	21%
Depreciation	40,535	30,434	10,101	33%
Payroll Taxes	11,843	9,881	1,962	20%
Total Operating Expenses	235,115	202,185	32,930	16%
Operating Income	987	35,128	(34,141)	(97%)
Nonoperating Revenues (Expenses):				
Customer Penalties	183	153	30	20%
Interest Income	0	444	(444)	(100%)
Loss on Disposal of Capital Assets	0	(1,450)	1,450	(100%)
Interest Expense (Gas Fund)	(3,504)	(4,895)	1,391	(28%)
Net Nonoperating Revenues (Expenses)	(3,321)	(5,748)	2,427	(42%)
Change in Net Assets Before Special Item	(2,334)	29,380	(31,714)	(108%)
Special Item:				
WTFAP Grant	0	68,621	(68,621)	(100%)
Change in Net Assets After Special Item	(2,334)	98,001	(100,335)	(102%)
Net Assets Beginning of Year	1,067,640	968,395	99,245	10%
Net Assets End of Year	\$ 1,065,306	1,066,396	(1,090)	(0%)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2011		
Assets				
Current Assets:				
Cash	\$ 628,288	727,666	(99,378)	(14%)
Certificates of Deposit	1,900,000	2,325,000	(425,000)	(18%)
Accounts Receivable	86,099	69,880	16,219	23%
Due From Other Utility Funds	96,219	67,181	29,038	43%
Due From Governmental (Revolving Loan) Fund	0	501	(501)	(100%)
Due From Other Governments (Related Party)	1,087	814	273	34%
Due From Other Governments	399	1,749	(1,350)	(77%)
Note Receivable - Rock Rapids Development Corporation	6,000	5,447	553	10%
Interest Receivable	6,325	13,460	(7,135)	(53%)
Inventory	38,543	33,882	4,661	14%
Prepaid Expenses	12,412	11,389	1,023	9%
Total Current Assets	2,775,372	3,256,969	(481,597)	(15%)
Restricted Cash:				
Customer Deposits	31,725	30,238	1,487	5%
Capital Assets:				
Land	13,863	13,863	0	0%
Utility Plant	1,073,144	920,217	152,927	17%
Transportation Equipment	101,000	101,000	0	0%
Office Equipment	7,596	7,596	0	0%
Tools and Safety Devices	73,097	75,897	(2,800)	(4%)
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	1,280,690	1,130,563	150,127	13%
Less: Accumulated Depreciation/Amortization	(618,364)	(583,746)	(34,618)	6%
Capital Assets - Net (Before W.I.P)	662,326	546,817	115,509	21%
Construction Work in Progress	0	81,440	(81,440)	(100%)
Net Capital Assets	662,326	628,257	34,069	5%
Other Assets:				
Advances To Other Utility Funds	1,186,008	641,868	544,140	85%
Notes Receivable - Rock Rapids Development Corporation	197,553	209,553	(12,000)	(6%)
Note Receivable - Housing Development				
Incentive Program	29,716	0	29,716	N/A
Total Other Assets	1,413,277	851,421	561,856	66%
Total Assets	4,882,700	4,766,885	115,815	2%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Assets

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2012	2011		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,001	5,054	(4,053)	(80%)
Due To Other Governments (Related Party)	18,698	21,429	(2,731)	(13%)
Due To Other Governments	1,462	1,050	412	39%
Accrued Vacation/Comp Time Pay	18,029	15,473	2,556	17%
Accrued Payroll & Payroll Liabilities	4,938	3,984	954	24%
Unearned Income	116,716	59,412	57,304	96%
Total Current Liabilities	160,844	106,402	54,442	51%
(Payable From Current Assets)				
Liabilities Payable From Restricted Cash:				
Customer Deposits	31,725	30,238	1,487	5%
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,432	10,279	153	1%
Total Liabilities	203,001	146,919	56,082	38%
Net Assets				
Invested in Capital Assets	662,326	628,257	34,069	5%
Unrestricted	4,017,373	3,991,709	25,664	1%
Total Net Assets	\$ 4,679,699	4,619,966	59,733	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Assets				
Current Assets:				
Cash	\$ 628,288	282,524	345,764	122%
Certificates of Deposit	1,900,000	2,775,000	(875,000)	(32%)
Accounts Receivable	86,099	54,769	31,330	57%
Due From Other Utility Funds	96,219	65,370	30,849	47%
Due From Other Governments (Related Party)	1,087	1,304	(217)	(17%)
Due From Other Governments	399	1,132	(733)	(65%)
Note Receivable - Rock Rapids Development Corporation	6,000	0	6,000	N/A
Interest Receivable	6,325	16,979	(10,654)	(63%)
Inventory	38,543	43,457	(4,914)	(11%)
Prepaid Expenses	12,412	10,462	1,950	19%
Total Current Assets	2,775,372	3,250,997	(475,625)	(15%)
Restricted Cash:				
Customer Deposits	31,725	30,793	932	3%
Capital Assets:				
Land	13,863	13,863	0	0%
Utility Plant	1,073,144	909,350	163,794	18%
Transportation Equipment	101,000	72,672	28,328	39%
Office Equipment	7,596	7,596	0	0%
Tools and Safety Devices	73,097	75,897	(2,800)	(4%)
Intangibles	11,990	11,990	0	0%
Total Capital Assets	1,280,690	1,091,368	189,322	17%
Less: Accumulated Depreciation/Amortization	(618,364)	(543,935)	(74,429)	14%
Net Capital Assets	662,326	547,433	114,893	21%
Other Assets:				
Advances To Other Utility Funds	1,186,008	699,791	486,217	69%
Notes Receivable - Rock Rapids Development Corporation	197,553	215,000	(17,447)	(8%)
Note Receivable - Housing Development Incentive Program	29,716	0	29,716	N/A
Total Other Assets	1,413,277	914,791	498,486	54%
Total Assets	4,882,700	4,744,014	138,686	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2012	2010		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	1,001	3,686	(2,685)	(73%)
Due To Other Governments (Related Party)	18,698	18,480	218	1%
Due To Other Governments	1,462	1,234	228	18%
Accrued Vacation/Comp Time Pay	18,029	0	18,029	N/A
Accrued Compensated Absences Pay	0	22,069	(22,069)	(100%)
Accrued Payroll & Payroll Liabilities	4,938	4,222	716	17%
Unearned Income	116,716	52,526	64,190	122%
Total Current Liabilities (Payable From Current Assets)	160,844	102,217	58,627	57%
Liabilities Payable From Restricted Cash:				
Customer Deposits	31,725	30,793	932	3%
Long-Term Liabilities:				
Accrued Sick Leave Pay	10,432	0	10,432	N/A
Total Liabilities	203,001	133,010	69,991	53%
Net Assets				
Invested in Capital Assets	662,326	547,433	114,893	21%
Unrestricted	4,017,373	4,063,571	(46,198)	(1%)
Total Net Assets	\$ 4,679,699	4,611,004	68,695	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2011		
Operating Revenues:				
Residential Gas Sales	\$ 591,359	747,290	(155,931)	(21%)
Commercial Gas Sales	292,786	381,605	(88,819)	(23%)
Material and Service Sales	1,899	267	1,632	611%
Service Income	870	1,017	(147)	(14%)
Service Income (Related Party)	4,132	4,132	0	0%
Total Operating Revenues	891,046	1,134,311	(243,265)	(21%)
Operating Expenses:				
Production/Processing Expense	550,119	784,235	(234,116)	(30%)
Distribution Expense	114,980	116,715	(1,735)	(1%)
Accounting and Collecting	25,923	29,097	(3,174)	(11%)
Administrative and General	153,679	158,430	(4,751)	(3%)
Free Community Service	0	7,975	(7,975)	(100%)
Transportation	5,038	4,825	213	4%
Depreciation	37,418	39,811	(2,393)	(6%)
Payroll Taxes	23,971	22,985	986	4%
Total Operating Expenses	911,128	1,164,073	(252,945)	(22%)
Operating Loss	(20,082)	(29,762)	9,680	(33%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	0	250	N/A
Customer Penalties	823	1,351	(528)	(39%)
Gas Rate Case Settlement	3,304	3,233	71	2%
Interest Income	38,339	59,741	(21,402)	(36%)
Interest Income (Water, Sewer Funds)	37,036	32,744	4,292	13%
Hail Insurance Proceeds	0	1,901	(1,901)	(100%)
Miscellaneous Income	328	0	328	N/A
Interest Expense	(265)	(246)	(19)	8%
Net Nonoperating Revenues (Expenses)	79,815	98,724	(18,909)	(19%)
Change in Net Assets Before Other Financing Use	59,733	68,962	(9,229)	(13%)
Other Financing Use:				
Operating Transfers Out (Transfer to Establish a New Revolving Loan Fund)	0	(60,000)	60,000	(100%)
Change in Net Assets After Other Financing Use	59,733	8,962	50,771	567%
Net Assets Beginning of Year	4,619,966	4,611,004	8,962	0%
Net Assets End of Year	\$ 4,679,699	4,619,966	59,733	1%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Gas Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2012	2010		
Operating Revenues:				
Residential Gas Sales	\$ 591,359	769,545	(178,186)	(23%)
Commercial Gas Sales	292,786	440,100	(147,314)	(33%)
Material and Service Sales	1,899	1,203	696	58%
Service Income	870	2,888	(2,018)	(70%)
Service Income (Related Party)	4,132	4,044	88	2%
Total Operating Revenues	891,046	1,217,780	(326,734)	(27%)
Operating Expenses:				
Production/Processing Expense	550,119	907,297	(357,178)	(39%)
Distribution Expense	114,980	85,742	29,238	34%
Accounting and Collecting	25,923	29,983	(4,060)	(14%)
Administrative and General	153,679	146,785	6,894	5%
Free Community Service (Related Party)	0	15,075	(15,075)	(100%)
Free Community Service	0	7,300	(7,300)	(100%)
Transportation	5,038	3,576	1,462	41%
Depreciation	37,418	36,695	723	2%
Payroll Taxes	23,971	21,422	2,549	12%
Total Operating Expenses	911,128	1,253,875	(342,747)	(27%)
Operating Loss	(20,082)	(36,095)	16,013	(44%)
Nonoperating Revenues (Expenses):				
Gain on Disposal of Capital Assets	250	0	250	N/A
Customer Penalties	823	830	(7)	(1%)
Gas Rate Case Settlement	3,304	3,779	(475)	(13%)
Interest Income	38,339	79,514	(41,175)	(52%)
Interest Income (Water, Sewer Funds)	37,036	35,222	1,814	5%
Miscellaneous Income	328	0	328	N/A
Loss on Disposal of Capital Assets	0	(210)	210	(100%)
Interest Expense	(265)	(426)	161	(38%)
Net Nonoperating Revenues (Expenses)	79,815	118,709	(38,894)	(33%)
Change in Net Assets	59,733	82,614	(22,881)	(28%)
Net Assets Beginning of Year	4,619,966	4,528,390	91,576	2%
Net Assets End of Year	\$ 4,679,699	4,611,004	68,695	1%

**Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids**

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2012

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Agriculture: Rural Economic Development Loans and Grants	10.854		\$ 300,000
Indirect:			
U.S. Department of Energy: Iowa Office of Energy Independence: Energy Efficiency and Conservation Block Grant	81.127	EECGB 10-3295	65,219
U.S. Department of Homeland Security: Iowa Department of Public Defense: Iowa Homeland Security and Emergency Management Division: Hazard Mitigation Grant Program	97.039	DR-1763-0093-01	335,930
Total Indirect			401,149
Total			\$ 701,149

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 28, 2013. The report on the business type activities and the proprietary funds was adverse due to management not recording the net other postemployment benefits (OPEB liability), the corresponding OPEB expense and the disclosures on the OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds and that certain information/data be disclosed in the notes to the financial statements in regards to the OPEB. The amounts by which this departure would affect the liabilities, net assets and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures are not reasonably determinable. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the Rock Rapids Municipal Utilities is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect

and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A, B, C, D, E, F and G-12 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-H-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Rock Rapids Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Rock Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, constituents and customers of the Rock Rapids Municipal Utilities and other parties to whom the Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Rock Rapids Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

January 28, 2013

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Members of the Utilities Board of Trustees:

Compliance

We have audited the Rock Rapids Municipal Utilities' compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Rock Rapids Municipal Utilities major federal programs for the year ended June 30, 2012. The Rock Rapids Municipal Utilities' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the Rock Rapids Municipal Utilities' management. Our responsibility is to express an opinion on the Rock Rapids Municipal Utilities' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rock Rapids Municipal Utilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Rock Rapids Municipal Utilities' compliance with those requirements.

In our opinion, the Rock Rapids Municipal Utilities complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Rock Rapids Municipal Utilities is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Rock Rapids Municipal Utilities' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the Utilities' internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as item III-AA-12 to be a material weakness.

The Rock Rapids Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Rock Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, constituents and customers of the Rock Rapids Municipal Utilities and other parties to whom the Rock Rapids Municipal Utilities may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

January 28, 2013

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Schedule of Findings and Questioned Costs**

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) The report expresses adverse opinions on the business type activities and each major proprietary fund and unqualified opinions on the governmental activities and the governmental major fund of the Rock Rapids Municipal Utilities financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were CFDA Number 97.039 – Hazard Mitigation Grant Program and CFDA 10.854 – Rural Economic Development Loans and Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The Rock Rapids Municipal Utilities did not qualify as a low-risk auditee.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- II-A-12 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of assets and various aspects of the recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.

Response – We will continue to attempt to segregate duties to the extent possible within economic constraints.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel/governing body members to provide additional control through review of financial transactions and reports

- II-B-12 Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

Recommendation – The Utilities has implemented procedures to cross-train employees to be able to perform a fellow employee's duties. The Utilities should utilize this cross-training to have each person's duties done by another employee for a period of time each fiscal year. This is important in case an employee unexpectedly becomes unavailable for an extended period of time and serves as an important aspect in the control environment.

Response – We will work toward having our employees rotate duties for a period of time each fiscal year.

Conclusion – Response accepted.

- II-C-12 Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net assets, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' notes

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

to the financial statements. The majority of the assets and liabilities were not reconciled between the general ledger and the corresponding detailed subsidiary records. Additionally, there were several improper bank reconciling items on some of the bank reconciliations, which resulted in the bank statement balances and the proof of cash totals not reconciling to the detailed general ledger cash accounts for the majority of the fiscal year. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts, including making sure subsidiary detail and general ledger control accounts and the bank statements, proof of cash totals and detailed general ledger cash accounts all properly reconciled, and disclosures in the financial statements and notes except as previously noted for the OPEB obligation.

Recommendation – The Utilities should implement procedures and controls and conduct staff training to ensure all assets, liabilities, net assets, revenues, expenses and disclosures are identified and included in the Utilities' financial statements and notes. Detailed subsidiary records should be prepared for accounts such as accounts payable and accounts receivable, and reconciliations of these records should be prepared on a monthly basis by an independent person. Bank statement reconciliations need to be verified that only deposits and checks that have not properly cleared the bank and are an actual deposit/withdrawal are listed reconciling the bank statement to the proof of cash totals and the detailed general ledger cash accounts. Management should be monitoring procedures and controls and reviewing the financial records/reporting on a regular basis to help ensure the accuracy of the financial records/reporting.

Response – We will review our current procedures and controls in all accounting aspects to identify areas where we can improve on our financial records/reporting going forward.

Conclusion – Response accepted.

II-D-12 Inventory Records – The Utilities needs to be consistently following the established inventory procedures. The inventory records are not monitored on a regular on-going basis. In addition, the accounting treatment of what inventory goes to a construction project needs to be more accurate. We noted inaccuracies in this area which resulted in some large corrective adjustments during the fiscal year. In addition, procedures on scrapping or cash sales of inventory/materials need to be reviewed to ensure uniformity and accountability are being followed on an every day basis

Recommendation – Inventory procedures and monitoring should be analyzed for ways to increase accuracy, controls and efficiency of detailed inventory records and the ultimate allocation of the inventory to a construction project, utilization as a repair, sale or scrapping.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Response – We have continued to progress in developing inventory procedures that will help improve our detailed inventory records. We have implemented improved inventory procedures in three of the four of our utility departments.

Conclusion – Response accepted. Please continue to develop inventory procedures and monitoring that will be consistently applied to increase accuracy, controls and efficiency.

- II-E-12 Payroll Procedures – We noted a couple instances where there was no written absentee slip and a couple instances where there was no absentee slip approval documented by the employee's supervisor for compensated absence time payment. Additionally, we noted numerous hand written entries on the timecards, rather than a time being recorded by the time clock; some of the hand written times which did not have any written indication of approval by management.

Recommendation – Absentee slips should be completed and approved by an employee's supervisor for all compensated absences before payment is authorized. Additionally, any handwritten entries on the time cards should be kept to a minimum and should be approved and initialed by management.

Response – We will implement procedures to address the issues noted.

Conclusion – Response accepted.

- II-F-12 Management Procedures – Based on findings during the audit, we identified that there appears to be a need for more oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

Recommendation – Utilities management needs to evaluate policies and procedures to ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. Utilities management needs to review audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development/enforcement of policies and procedures.

Response – We will continue to address your recommendations as we have done in the past.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

- II-G-12 Accounts Receivable Reconciliations – We noted there are no monthly written documented reconciliations being done to reconcile beginning aged accounts receivable to ending aged accounts receivable. The monthly reconciliations should show all new billings, collections, write-offs, credits, etc. Each aspect of the reconciliation should be reviewed and verified by an independent person.

Recommendation – The Utilities should implement procedures to prepare a written monthly reconciliation of aged accounts receivables that is reviewed and verified by an independent person.

Response – We will implement your recommendation.

Conclusion – Response accepted.

- II-H-12 Disbursement Procedures –We noted several instances where the only supporting documentation on file was a copy of a credit card slip (no detailed support).

Recommendation – All disbursements, including employee reimbursements, credit card charges and petty cash disbursements, need to be supported by an actual receipt or invoice that supports the disbursement in detail. Meal reimbursements must be supported by a receipt detailing what was purchased. The receipt or invoice needs to be marked “paid” or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement.

Response – We will evaluate our disbursement procedures in an attempt to identify ways we can eliminate this issue.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 97.039: Hazard Mitigation Grant Program

Federal Award Year: 2012

U.S. Department of Homeland Security

**Passed through the Iowa Department of Public Defense: Iowa Homeland Security and
Emergency Management Division**

CFDA Number 10.854: Rural Economic Development Loans and Grants

Federal Award Year: 2012

U.S. Department of Agriculture

III-AA-12 Segregation of Duties over Federal Expenditures – The Utilities does not properly segregate authorization of transactions, handling of source documents, custody of assets, recordkeeping and reconciling functions for cash disbursements and payroll expenditures, including those related to federal programs. See item II-A-12.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2012 did not exceed the final amended budget amount for the Rock Rapids Municipal Utilities in the business type activities function; however, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did exceed the original budgeted amount as part of the City of Rock Rapids' adopted budget before the final amended budget was approved on May 30, 2012.

Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the original adopted budget.

Response – We will work with the City to make sure the Utilities portion of the City's budget is amended and adopted by the City Council in the future before we authorize disbursements that would exceed the original adopted budgeted disbursements total.

Conclusion – Response accepted.

IV-B-12 Questionable Expenses – Certain expenses we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented or the necessary documentation to support the expense was not present were noted. These expenses are detailed as follows:

We noted that the only support for several credit card charges was a copy of a credit card slip and no detailed receipt/supporting documentation.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – All disbursements should be supported by an actual receipt/invoice that supports the expense in detail. Meal reimbursements must be supported by a receipt detailing what was purchased.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 2012

Response – We will evaluate our disbursement procedures to make sure we retain proper supporting documentation.

Conclusion – Response accepted.

- IV-C-12 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: IV-B-12” for a possible related comment.
- IV-D-12 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted. However, the Utilities loaned the Rock Rapids Community Affairs Corporation \$360,000 through the Revolving Loan Fund to build a spec commercial building. The Rock Rapids Community Affairs Corporation sold the spec building on contract (the contract carries a 0% interest rate) to Cody and Jennifer Hoefert (Cody is a City of Rock Rapids council member). The \$360,000 loan between the Utilities and the Rock Rapids Community Affairs Corporation was deemed satisfied when the aforementioned installment contract with the Hoefert’s was assigned from the Rock Rapids Community Affairs Corporation over to Utilities on August 12, 2011. Based on discussions with legal counsel, the loan with the Hoefert’s does not appear to represent a conflict of interest due to the legal steps that were taken in transferring the debt from the Rock Rapids Community Affairs Corporation to the Hoefert’s. Please see Notes to the Financial Statements (5) for further details.
- IV-E-12 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-12 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-G-12 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.
- IV-H-12 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2012.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
Nathan Hoekstra, Assistant Auditor
Kayla Reck, Assistant Auditor

De Noble & Company PC
Certified Public Accountants

Rock Rapids Municipal Utilities
Corrective Action Plan for Federal Audit Findings
Year ended June 30, 2012

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
III-AA-12	Segregation of Duties	The corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Jim Hoye, Utilities Manager, (712) 472-2511	We acknowledge the recommendation and are evaluating our operating procedures to determine what changes, if any, can be made within economic constraints. We anticipate having any identified changes, if any made by the end of FYE 2013.

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

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Rock Rapids Municipal Utilities

Time Analysis

FYE June 30, 2012 Audit

	<u>Fee</u>
David De Noble, CPA 226.00 hours @ \$33	\$ 7,458.00
Carmen Austin, CPA 127.75 hours @ \$32	4,088.00
Nathan Hoekstra, Staff Accountant 140.25 hours @ \$17	2,384.25
Kayla Reck, Staff Accountant 91.75 hours @ \$19	1,743.25
Office Personnel 11.25 hours @ \$11.24	<u>126.50</u>
Total (\$15,800 ÷ 597 hrs. = \$26.47 per hour)	<u>\$ 15,800.00</u>

De Noble & Company PC - Cost Analysis

Wages and Payroll Taxes	\$ 13,300.00
Office Expenses (Materials, Etc...)	<u>400.00</u>
Total Cost	<u>\$ 13,700.00</u>



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NEWS RELEASE

FOR RELEASE: January 30, 2013

Contact: James Hoyer
Utilities Manager
(712) 472-2511

De Noble & Company PC today released an audit report on the Rock Rapids Municipal Utilities, Rock Rapids, Iowa.

The Utilities had revenues of \$4,579,360 for the fiscal year ended June 30, 2012, an increase of \$530,491 or 13.1% from the previous year. Of the revenues, charges for services amounted to \$3,730,495, general revenues amounted to \$102,926 and special items (grants) amounted to \$745,939. Revenues by fund were as follows: \$2,532,456 from the Electric Utility, \$539,493 from the Water Utility, \$236,285 from the Sewer Utility, \$971,126 from the Gas Utility and \$300,000 from the Revolving Loan Fund.

Expenses for the Utilities totaled \$3,852,651, an increase of \$91,506 or 2.4% from the previous year. Expenses included \$2,188,531 in the Electric Utility, \$514,108 in the Water Utility, \$238,619 in the Sewer Utility and \$911,393 in the Gas Utility.

A copy of the audit report is available for review in the Utilities' office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

